

WELLSPRING HOUSE, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

WELLSPRING HOUSE, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Wellspring House, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Wellspring House, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, 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 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wellspring House, Inc. as of June 30, 2016, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2016, on our consideration of Wellspring House, 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 Wellspring House, Inc.'s internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Wellspring House, Inc.'s 2015 financial statements, and our report dated August 11, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink, appearing to read "BJHC PC".

Topsfield, Massachusetts
August 23, 2016

WELLSPRING HOUSE, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	ASSETS	2016	2015
CURRENT ASSETS:			
Cash and cash equivalents		\$ 739,769	\$ 562,102
Program services receivable		114,189	78,201
Grants and pledges receivable		110,500	104,334
Cash and cash equivalents restricted for capital improvements		26,341	215,650
Cash and cash equivalents - board designated endowment		163,768	100,259
Investments - board designated endowment		853,915	938,103
Prepaid expenses		17,607	11,503
Total current assets		2,026,089	2,010,152
PROPERTY AND EQUIPMENT - At cost			
Less accumulated depreciation		1,808,770	1,667,570
		1,106,019	1,092,062
Net property and equipment		702,751	575,508
TOTAL ASSETS		\$ 2,728,840	\$ 2,585,660
<u>LIABILITIES AND NET ASSETS</u>			
CURRENT LIABILITIES:			
Current portion of long-term debt		\$ 13,102	\$ 12,606
Accounts payable and accrued expenses		93,421	67,587
Accrued payroll and benefits		83,576	83,396
Deferred revenue		22,740	-
Total current liabilities		212,839	163,589
LONG-TERM LIABILITIES -			
Long-term debt less current maturities		190,265	203,214
Total liabilities		403,104	366,803
NET ASSETS:			
Unrestricted:			
Undesignated		1,153,361	831,125
Board designated - endowment		1,017,683	1,038,362
Total unrestricted net assets		2,171,044	1,869,487
Temporarily restricted		154,692	349,370
TOTAL NET ASSETS		2,325,736	2,218,857
TOTAL LIABILITIES AND NET ASSETS		\$ 2,728,840	\$ 2,585,660

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

WELLSPRING HOUSE, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(with comparative totals for the year ended 2015)

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL 2016	TOTAL 2015
OPERATING REVENUES AND OTHER SUPPORT:				
Contributions and grants	\$ 560,094	\$ 353,929	\$ 914,023	\$ 950,958
Fundraising events, net	138,410	-	138,410	136,724
In-kind goods and services	123,023	-	123,023	146,502
Contracted services	878,881	-	878,881	610,265
Rental income	131,783	-	131,783	82,616
Net assets released from restrictions	359,048	(359,048)	-	-
Total operating revenues, gains and other support	2,191,239	(5,119)	2,186,120	1,927,065
OPERATING EXPENSES:				
Program services:				
Family shelter	856,205	-	856,205	559,638
Affordable housing	120,465	-	120,465	134,335
Community education	594,717	-	594,717	527,091
Total program services	1,571,387	-	1,571,387	1,221,064
Supporting services:				
General and administrative	188,221	-	188,221	262,456
Fundraising	245,641	-	245,641	254,978
Total supporting services	433,862	-	433,862	517,434
Depreciation and amortization expense	72,144	-	72,144	68,008
Total operating expenses	2,077,393	-	2,077,393	1,806,506
CHANGE IN NET ASSETS FROM OPERATIONS	113,846	(5,119)	108,727	120,559
NON-OPERATING ACTIVITIES:				
Realized and unrealized loss on investments	(34,072)	-	(34,072)	(4,593)
Interest and dividend income	28,324	-	28,324	23,955
Contributions and grants, non-operating	-	3,900	3,900	304,485
Net assets released from restrictions, non-operating	193,459	(193,459)	-	-
Total nonoperating activities	187,711	(189,559)	(1,848)	323,847
TOTAL CHANGE IN NET ASSETS	301,557	(194,678)	106,879	444,406
NET ASSETS AT BEGINNING OF YEAR	1,869,487	349,370	2,218,857	1,774,451
NET ASSETS AT END OF YEAR	\$ 2,171,044	\$ 154,692	\$ 2,325,736	\$ 2,218,857

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

WELLSPRING HOUSE, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016
(with comparative totals for the year ended June 30 2015)

	Family Shelter	Affordable Housing	Community Education	Total Program Services	General and Administrative	Fundraising	Total 2016	Total 2015
Personnel:								
Salaries	\$ 478,402	\$ 41,345	\$ 364,535	\$ 884,282	\$ 109,064	\$ 145,937	\$ 1,139,283	\$ 996,107
Payroll taxes	43,764	3,792	33,228	80,784	10,720	13,338	104,842	94,324
Fringe benefits	44,159	450	22,332	66,941	17,253	18,917	103,111	93,638
Total personnel expenses	566,325	45,587	420,095	1,032,007	137,037	178,192	1,347,236	1,184,069
In-kind expenses	13,063	350	81,511	94,924	-	27,402	122,326	128,377
Contractual services	207,161	-	1,190	208,351	3,000	440	211,791	74,746
Repairs and maintenance	2,870	29,091	12,316	44,277	2,842	2,842	49,961	58,255
Professional fees	1,801	975	2,969	5,745	21,222	450	27,417	34,130
Utilities	1,086	18,457	4,705	24,248	1,086	1,086	26,420	33,845
Insurance	7,129	7,129	7,129	21,387	5,004	3,564	29,955	27,973
Network expense	6,244	3,421	10,466	20,131	4,208	4,105	28,444	27,233
Scholarship/client assistance	11,517	-	6,197	17,714	-	-	17,714	23,047
Printing	-	-	785	785	-	13,052	13,837	18,664
Travel	8,553	-	13,211	21,764	-	-	21,764	18,370
Equipment	3,139	6,144	4,849	14,132	908	908	15,948	17,315
Real estate taxes	1,233	1,233	5,341	7,807	1,233	1,233	10,273	15,242
Program supplies	3,190	-	9,340	12,530	-	-	12,530	14,583
Telephone and internet	5,556	2,730	3,557	11,843	1,461	1,135	14,439	11,959
Interest expense	583	4,416	2,526	7,525	583	583	8,691	9,161
Postage	38	9	280	327	3,685	2,709	6,721	8,217
Office expense	1,563	165	237	1,965	4,104	2,390	8,459	7,379
Food	8,899	87	171	9,157	65	-	9,222	6,992
Subscriptions/program material	1,195	-	4,112	5,307	96	1,558	6,961	5,170
Household supplies	2,857	671	2,071	5,599	478	492	6,569	4,945
Advertising	1,522	-	782	2,304	-	-	2,304	3,138
Bank charges	-	-	-	-	14	2,225	2,239	2,615
Miscellaneous	-	-	27	27	681	1,275	1,983	1,999
Staff training	15	-	850	865	514	-	1,379	760
Participant expenses	666	-	-	666	-	-	666	314
Total expenses before depreciation	856,205	120,465	594,717	1,571,387	188,221	245,641	2,005,249	1,738,498
Depreciation and amortization	18,036	18,036	18,036	54,108	9,018	9,018	72,144	68,008
Total expenses	\$ 874,241	\$ 138,501	\$ 612,753	\$ 1,625,495	\$ 197,239	\$ 254,659	\$ 2,077,393	\$ 1,806,506

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

WELLSPRING HOUSE, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 106,879	\$ 444,406
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	72,144	68,008
Realized and unrealized loss on investments	34,072	4,972
Contributions and grants restricted for long-term purposes	(3,900)	(304,485)
In-kind goods and services, capitalized	(697)	(18,125)
In-kind securities contributions	(33,832)	(26,569)
Proceeds from sale of securities contributions	34,622	26,948
Cash provided by (used in) changes in:		
Program services receivable	(35,988)	(37,980)
Grants and pledges receivable	(6,166)	(17,667)
Prepaid expenses	(6,104)	509
Accounts payable and accrued expenses	25,834	48,038
Accrued payroll and benefits	180	17,993
Deferred revenue	22,740	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	209,784	206,048
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(198,690)	(101,919)
Change in cash and cash equivalents - board designated endowment	(63,509)	(41,489)
Increase in cash and cash equivalents restricted for capital improvements	189,309	(198,518)
Proceeds from sale of investments	49,326	17,424
Purchases of investments	-	(107,489)
NET CASH USED IN INVESTING ACTIVITIES	(23,564)	(431,991)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions and grants non-operating	3,900	304,485
Payments on long-term debt	(12,453)	(12,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(8,553)	292,485
NET INCREASE IN CASH AND CASH EQUIVALENTS	177,667	66,542
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	562,102	495,560
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 739,769	\$ 562,102
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid during the years for -		
Interest	\$ 8,691	\$ 9,161
<u>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES</u>		
Various noncash donations:		
Securities	\$ 33,832	\$ 26,569
Goods and services capitalized	697	18,125

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

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

1. BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES:

Business Activity

Wellspring House, Inc. (the "Organization" or "Wellspring") was incorporated on July 8, 1981 under the provisions of Massachusetts General Laws Chapter 180 and qualifies as a tax-exempt not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code. Wellspring has been classified as an organization which is not a private foundation under Section 509(a); accordingly, contributions made to this Organization qualify for the maximum charitable deduction for federal income tax purposes.

Method of Accounting

The Organization's policy is to maintain its books and prepare its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

The Organization reports information regarding its financial position and activities according to the following three classes of net assets:

1. Unrestricted Net Assets - use of resources is not limited or restricted by donors. In addition, unrestricted net assets of the Organization include funds which represent unrestricted resources designated by the board of directors for the Wellspring House, Inc. Endowment Fund as further described in Note 5.
2. Temporarily Restricted Net Assets - use of resources is limited by donors for a specific purpose or time period.
3. Permanently Restricted Net Assets - resources must be maintained in accordance with permanent restrictions imposed by donors.

Contributions are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and nature of any donor restrictions.

Contributions are required to be recorded as receivables and revenues and the Organization is required to distinguish between contributions received for each net asset category in accordance with donor imposed restrictions. Contributions may include gifts of cash, collection items, or promises to give.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash are reported at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved, when such amounts are considered material.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(Continued)

1. BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued):

Method of Accounting (Continued)

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction, until the restrictions expire, at which time temporarily restricted net assets are reclassified to unrestricted net assets. Contributions are considered available for unrestricted use unless specifically restricted by the donor.

Statements of Functional Expenses

Following are the major classes of programs reported in the financial statements:

Family Shelter:

Since 1981, Wellspring's emergency shelter program has housed more than 769 homeless families. In fiscal year 2016, 17 families were sheltered (17 parents and 28 children). Case management services were provided to each family to help them secure permanent, affordable housing; ensure that children were enrolled in school or daycare; and that basic needs such as food, clothing, and healthcare were met. Horizons for Homeless Children, a community partner, provided two volunteer childcare sessions every week while parents participated in workshops and meetings relevant to the health and well-being of the family. Other volunteers and community groups provided additional services including celebrating special occasions such as birthdays and providing household items as families moved out of shelter into their new homes.

In a motel shelter site in Danvers, Wellspring was a contractor for the Department of Housing and Community Development (DHCD) and with the Lynn Housing Authority and Neighborhood Development (LHAND) to provide case management and housing search services to 224 homeless families (representing 697 individuals, parents and children combined). Wellspring partnered with other social service agencies, local faith communities, and community volunteers to ensure basic needs were met for food, clothing, and health care. Wellspring volunteers ran an on-site English Language Learning tutoring program (9 adults participated) as well as a Homework Club (41 children participated).

New in fiscal year 2016, Wellspring was a contractor for DHCD and sub-contracted to LHAND to provide "Front Door Diversion" crisis services to families facing the threat of homelessness. Services were provided through the access point of the Department of Transitional Assistance (DTA) in Salem, MA where families are deemed eligible for "Emergency Assistance" (EA) from the state. As a result of the Diversion program, 371 families remained safely housed in rental units in their home communities instead of experiencing homelessness and entering the state family shelter system.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(Continued)

1. BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued):

Statements of Functional Expenses (Continued)

Wellspring also provided homelessness prevention and advocacy services. During fiscal year 2016, Wellspring's Homeless Prevention Fund received 217 calls from Cape Ann residents seeking counseling and financial assistance. Thirteen one-time grants were provided to families for rent arrearages or utility payments to prevent these families from becoming homeless. These one-time grants were made possible in part due to partnerships with Small Can Be Big and other community grant programs. Wellspring is a co-convenor of the North Shore Housing Action Group (a regional network that addresses issues related to homelessness) and also the Cape Ann Resource Exchange (a group of service providers that meets to share information and assist struggling families).

In August 2015, a local law firm provided Back-to-School backpacks filled with school supplies to 79 children in the shelter and motel. Wellspring's 19th annual Holiday Store made it possible for parents from 396 families to make a limited contribution to purchase gifts to celebrate the holidays with their children; a total of 801 children received gifts through the fiscal 2015 Holiday Store.

In fiscal year 2016, the Organization worked with 3 families (3 adults and 3 children) in the Family Stabilization program. Wellspring's stabilization efforts assisted families who recently moved out of the Organization's Gloucester-based shelter into permanent housing. Stabilization services ensure that children are enrolled in school; families are connected with primary health care providers; parents have adequate resources in place to pursue a successful job search, and families' basic needs for transportation, food, clothing, and other supplies are met. Wellspring House provides ongoing support throughout the 12 months following families' departure from shelter.

Affordable Housing:

Since 1987 Wellspring has owned and operated a multi-unit Single Room Occupancy property in downtown Gloucester that provides long-term housing for 11 low-income individuals. A part-time Resident Services Coordinator works with these tenants to assist them in connecting with community resources and maintain a safe, supportive residential setting.

Wellspring Community Education:

The Wellspring Education Resource Collaborative (WERC) is an educational advising and mentoring service that helps low-income adult students to develop informed and achievable educational plans linked to living wage jobs. Sixty-six participants received counseling through the WERC model in fiscal year 2016. Professional WERC career and educational counselors, in conjunction with volunteer mentors, continue to support students for a minimum of 18 months.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(Continued)

1. BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued):

Statements of Functional Expenses (Continued)

The Organization's English Language Learning (ELL) program is offered in partnership with the Sawyer Free Library in Gloucester. Adult students are matched with a one-on-one tutor and come to the program to build English proficiency in comprehension, verbal expression, reading, and writing. Seventy-five students participated in the Gloucester-based ELL Program in fiscal year 2016. Wellspring also supported an ELL program led by volunteers onsite at motel shelter site (refer to the "Family Shelter" section).

The Adult Learning Initiative (ALI) is an adult basic education program that helps students attain important foundational skills for employment and/or higher education. If they have not yet earned a High School Diploma, the course prepare them to take the High School Equivalency Test (HiSET). Students study math, English, computer skills, and career development. Graduates who successfully complete the computer skill course are eligible to receive 3 college credits from North Shore Community College. In fiscal year 2016, 30 students graduated from ALI.

New in FY 2016, Wellspring launched ALI 2 Math, a college preparatory math course, to help enable students to avoid the need to take pre-requisite (remedial) math in the college setting. This allows students to preserve their funds and/or financial aid for courses that are credit-bearing and contribute towards the completion of a degree and/or certificate program. Nine students completed ALI 2 Math in fiscal year 2016.

The MediClerk program offers job training in partnership with North Shore Medical Center and prepares students for medical administrative positions. Thirty-seven students participated in fiscal year 2016. MediClerk celebrated its 13th anniversary in fiscal year 2016, and to date has trained 410 students. The program has an impressive 85% job placement rate. Wellspring is in the formal process of seeking national accreditation for this program.

This fiscal year Wellspring's Robert Clark Rogers Educational Opportunity Fund ("Bob Rogers Fund") made 6 awards totaling \$7,595 to graduates from Wellspring's education programs who have gone on to post-secondary educational opportunities. Since the first awards were made in 2006, the Bob Rogers Fund has provided 69 awards totaling \$70,490. The Organization also sponsored one student in the One Family Scholars program; One Family Scholars provides ongoing financial support throughout the duration of a student's academic experience, until completion and achievement of a terminal degree.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(Continued)

1. BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued):

Statements of Functional Expenses (Continued)

The Organization allocates expenses on a functional basis among its programs and supporting services. Expenses that can be identified with a specific program or supporting service are allocated directly to those programs. Expenses common to several functions are allocated in accordance with the Organization's indirect costs allocation plan. Supporting services are those costs related to operating and managing the Organization's programs on a day-to-day basis. Supporting services have been sub-classified as follows:

General and administrative - includes all activities related to the Organization's internal management and accounting for program services.

Fundraising - includes all activities related to maintaining contributor information, donor relations and recognition events, writing grant proposals, distribution of materials, and other similar projects related to the procurement of funds for the Wellspring House, Inc. programs. Fundraising expenses also include the indirect costs of special fundraising events, while direct costs are netted against event proceeds.

Allocation of functional expenses is based on management's discretion, time studies and estimates. These variables may change from year to year. As a result, there may be a fluctuation in the comparative presentation of data from year to year.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

Management's Review

In preparing these financial statements, the Organization's management has evaluated events and transactions for potential recognition or disclosure through August 23, 2016, the date the financial statements were available to be issued.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(Continued)

1. BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued):

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Cash and Cash Equivalents

The Organization considers all liquid investments with a maturity of three months or less to be cash or cash equivalents.

Investments

The Organization has adopted generally accepted accounting principles and established a framework for measuring fair value and provided expanded disclosures about fair value measurements. Under generally accepted accounting principles fair value refers to the price that would be received to sell an asset or to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. It clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, generally accepted accounting principles establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under generally accepted accounting principles, fair value measurements are separately disclosed by level within the fair value hierarchy.

Investments measured at fair value are classified and disclosed in one of the following categories:

Level I: Quoted prices are available in active markets for identical investments as of the reporting date.

Level II: Pricing inputs are other than quoted prices in active markets of comparable investments, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level III: Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment.

All investments include listed equity or debt instruments which are publicly traded, and whose fair value is therefore classified and disclosed as Level I. Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(Continued)

1. BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued):

Investments (Continued)

Investment income, primarily interest and dividends, is recorded when earned and considered available for unrestricted use unless otherwise restricted by the donor. Realized and unrealized gains and losses are determined on the basis of specific identification and recognized on a trade-date basis.

Program Services Receivable

Program services receivable represent amounts which are due from state and municipal agencies. These amounts are considered fully collectible, accordingly, these financial statements do not contain a provision for uncollectible contracts receivable. If amounts owed become uncollectible, they are charged as an expense when that determination is made.

Grants and Pledges Receivable

Grants and pledges receivable represent unconditional promises to give, which are classified as current if they are scheduled for payment within one year, and non-current when the expected payment date exceeds one year. These amounts are considered fully collectible by management, and consequently, these financial statements do not contain a provision for uncollectible pledges. Therefore, if pledges become uncollectible, they will be charged as an expense when that determination is made. For the years ended June 30, 2016 and 2015, there were no pledges that were considered uncollectible and no bad debts arising from grant commitments.

Cash and Cash Equivalents Restricted for Capital Improvements

Restricted cash represents capital campaign fund contributions restricted for long-term property improvements.

Property and Equipment

Property and equipment are recorded at cost. Repairs and maintenance are charged to expense as incurred and improvements are capitalized. Acquisitions of property and equipment in excess of \$2,500 are capitalized. Upon retirement or sale, the asset cost and related accumulated depreciation are removed from the accounts and any gain or loss is credited to or charged against income. Depreciation is computed over the assets' estimated useful lives using the straight-line method.

Impairment of Long-Lived Assets

In accordance with generally accepted accounting principles, the Organization has given consideration to the impairment of long-lived assets, in its presentation of these financial statements. As of June 30, 2016, the Organization has not recognized any reduction in the carrying value of its property.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(Continued)

1. BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued):

Deferred Revenue

The Organization recognizes program service revenue when earned. Deferred revenue represents prepayments for rental subsidies for the following fiscal year and not earned as of June 30, 2016.

In-Kind Goods and Services

The Organization maintains a policy whereby the value of the donated goods and services which require a specialized skill and/or which would have otherwise been purchased by the Organization are recognized as revenue on the statements of activities and are listed as expenses on the statements of functional expenses, or as direct costs of fundraising events. Donations of equipment and goods which meet the criteria of the Organization's capitalization policy are capitalized and depreciated pursuant to the policy described above.

Income Taxes and Uncertainty of Income Taxes

Wellspring House, Inc. is a not-for-profit organization, qualifying under IRS Section 501(c)(3), and is exempt from federal and state income taxes, however, if the Organization had unrelated business income it would be taxable.

The Organization is required to report uncertain tax positions, related interest and penalties. As of June 30, 2016, the Organization determined that there were no material uncertain tax positions to report.

For the years ended June 30, 2016 and 2015, no provision for income taxes has been made. The Organization is subject to audit by tax authorities generally for three years after its returns were filed. Information returns filed for the years ended 2015, 2014 and 2013 remain subject to examination by the Internal Revenue Service and the Commonwealth of Massachusetts. The Organization believes that it has appropriate support for the positions taken on its tax returns.

Advertising

Wellspring House, Inc. expenses advertising costs as incurred.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(Continued)

2. BOARD DESIGNATED ENDOWMENT INVESTMENTS:

As of June 30, 2016 and 2015 investments cost and unrealized gains and losses consisted of the following:

	June 30, 2016		June 30, 2015	
	Cost	Market Value	Cost	Market Value
Cash and cash equivalents	\$ 163,768	\$ 163,768	\$ 100,259	\$ 100,259
Exchange traded funds	727,878	853,915	783,861	938,103
	<u>\$ 891,646</u>	<u>\$ 1,017,683</u>	<u>\$ 884,120</u>	<u>\$ 1,038,362</u>

Based on the fair value hierarchy levels, fair value measurements are classified as follows:

	June 30, 2016			
	Level I	Level II	Level III	Total
Cash and cash equivalents	\$ 163,768	\$ -	\$ -	\$ 163,768
Exchange traded funds	853,915	-	-	853,915
	<u>\$ 1,017,683</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,017,683</u>

	June 30, 2015			
	Level I	Level II	Level III	Total
Cash and cash equivalents	\$ 100,259	\$ -	\$ -	\$ 100,259
Exchange traded funds	938,103	-	-	938,103
	<u>\$ 1,038,362</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,038,362</u>

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(Continued)

2. BOARD DESIGNATED ENDOWMENT INVESTMENTS (Continued):

The portfolio is diversified by type of investment and industry concentration so that no individual investment or a group of investments represent a significant concentration of market risk.

Investment income for the years ended June 30, 2016 and 2015 is comprised of the following:

	2016	2015
Interest and dividends	\$ 28,324	\$ 23,955
Realized gain (loss) on investments	(2,132)	243
Unrealized gain (loss) on investments	(31,940)	(4,836)
	<u>\$ (5,748)</u>	<u>\$ 19,362</u>

3. PROPERTY AND EQUIPMENT:

At June 30, 2016 and 2015, property and equipment was comprised as follows:

	2016	2015
Land	\$ 83,957	\$ 83,957
Land improvements	236,242	4,600
Buildings	685,779	685,779
Building Improvements	727,993	690,919
Furniture and equipment	58,864	109,954
Construction in progress	15,935	92,361
	<u>1,808,770</u>	<u>1,667,570</u>
Less accumulated depreciation	<u>1,106,019</u>	<u>1,092,062</u>
Property and equipment - net	<u>\$ 702,751</u>	<u>\$ 575,508</u>

Depreciation of property and equipment was \$72,144 and \$68,008 for the years ended June 30, 2016 and 2015, respectively.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(Continued)

4. LONG-TERM DEBT:

At June 30, 2016 and 2015 long-term debt was comprised as follows:

	<u>2016</u>	<u>2015</u>
Real estate mortgage payable - bank, secured by real estate at Essex Avenue, Washington Street and Chestnut Street, Gloucester, Massachusetts, monthly payments of \$1,663, including interest at 4.20%, matures November, 2018	\$ 193,239	\$ 204,679
Assessment for sewer betterment - City of Gloucester, annual payments of \$1,013 at an annual interest rate of 1.56%, matures May, 2026	<u>10,128</u>	<u>11,141</u>
	203,367	215,820
Less - current portion of long-term debt	<u>(13,102)</u>	<u>(12,606)</u>
	<u>\$ 190,265</u>	<u>\$ 203,214</u>

Principal payments on the Organization's obligations with terms in excess of one year mature as follows:

June 2017	\$ 13,102
2018	13,620
2019	169,556
2020	1,013
2021	1,013
Thereafter	5,063

The Organization's mortgage loan agreement with its lender provides for restrictive covenants relating to compliance with certain administrative and financial matters.

The Organization also has a secured line of credit agreement with a bank with a maximum availability of \$300,000. Loans are collateralized by a second mortgage on the Chestnut Street, Essex Avenue and Washington Street properties, as well as all equipment, appliances, furnishings and fixtures therein. The agreement provides that any borrowings are due on demand and bear interest at the prevailing prime lending rate plus 1.0% (4.5% as of June 30, 2016). There were no loans outstanding at June 30, 2016 and 2015.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(Continued)

5. DESIGNATIONS AND RESTRICTIONS OF NET ASSETS:

Board Designated Endowment Fund:

During fiscal year 1998, the board of directors established the Wellspring House, Inc. Endowment Fund, an unrestricted, board designated fund. An Endowment Policy was adopted and a committee was appointed to invest the funds. The board of directors determines the use of the funds on an annual basis, based on market conditions and the current needs of the Organization. The Robert Clark Rogers Education Opportunity Fund is a special fund within the board designated Endowment Fund, which was established to support Wellspring's education mission to include in-house education programs, research and teaching efforts, as well as educational assistance to program participants.

To satisfy its rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). All investments in the Endowment will be invested in securities that are traded on one of the major world exchanges. The Organization maintains a diversified portfolio of funds across both equity-based and fixed income investments to achieve its long-term objectives within prudent risk constraints.

As of June 30, 2016 and 2015, the aggregate balance of the board designated Endowment Fund was \$1,017,683 (of which \$225,935 represents the Rogers Education Opportunity Fund) and \$1,038,362 (of which \$244,173 represents the Rogers Education Opportunity Fund), respectively, which is held in exchange traded funds and cash equivalents. Composition of and changes in endowment net assets for the years ended June 30, 2016 and 2015 were as follows:

	2016	2015
Board designated Endowment Fund, beginning of year	\$ 1,038,362	\$ 912,159
Investment return:		
Investment income	26,728	22,916
Net depreciation	(34,862)	(4,972)
Contributions and designations	2,850	112,200
Transfers from board designated Endowment Fund	(7,800)	(905)
Amounts appropriated for expenditure	(7,595)	(3,000)
Administrative expenses	-	(36)
	<hr/>	<hr/>
Board designated Endowment Fund, end of year	<u>\$ 1,017,683</u>	<u>\$ 1,038,362</u>

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

(Continued)

5. DESIGNATIONS AND RESTRICTIONS OF NET ASSETS (Continued):

Temporarily Restricted Net Assets:

Temporarily restricted net assets include unexpended contributions and grants restricted by donors for the following purposes as of June 30, 2016 and 2015:

	2016	2015
Capital improvements	\$ 26,341	\$ 215,650
Restricted for future use	110,500	103,334
Education programs	5,016	21,076
Family shelter	8,826	5,000
Homelessness prevention fund	4,009	4,060
Robert Clark Rogers Education Opportunity fund	-	250
Total	<u>\$ 154,692</u>	<u>\$ 349,370</u>

Net assets released from temporary donor restrictions were as follows for the years presented:

	2016	2015
Education programs	\$ 247,988	\$ 252,413
Capital improvements	190,610	45,967
Time restrictions elapsed	103,334	48,333
Homelessness prevention fund	3,051	-
Board endowment	2,850	62,200
Family shelter	4,674	22,000
First jobs fund	-	1,383
Total	<u>\$ 552,507</u>	<u>\$ 432,296</u>

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(Continued)

6. GOVERNMENT CONTRACTS:

Wellspring House, Inc. is a party to the purchase of service contracts with the Massachusetts Department of Housing and Community Development (DHCD) to provide emergency shelter and related services to homeless families referred by the DHCD. The primary contract is administered on a unit rate basis and accordingly, the funding source is billed as services are provided. Unrestricted program service fees, and the related receivable are recorded in the period during which the costs were incurred and services were delivered. Total billings under the primary DHCD shelter contract amounted to \$276,184 and \$261,214 for the years ended June 30, 2016 and 2015, respectively.

During the years ended June 30, 2016 and 2015, Wellspring received a second component to its shelter contract to fund rehousing and social service case management work. Funds received under this cost reimbursement contract amounted to \$439,377 and \$187,925 for the years ended June 30, 2016 and 2015, respectively.

Total revenues arising from the above contracts amounted to \$715,561 and \$449,139, representing 33% and 20% of total support and revenues for the years ended June 30, 2016 and 2015, respectively.

7. FUNDRAISING ACTIVITIES:

The Organization sponsors various special events to generate contributions as well as to gain public awareness for its programs and charitable purpose. Contributions from fundraising events are reported on the statement of activities net of the direct costs of the events, while indirect costs and the costs associated with direct mail campaigns and annual appeal letters are reported as fundraising expenses in the statements of functional expenses.

The results of fundraising events are summarized below:

	Gross Proceeds	Direct Costs	Net Event Revenues	
			2016	2015
Women Honoring Women Luncheon	\$ 149,305	\$ 19,028	\$ 130,277	122,036
Holiday Store	28,110	19,977	8,133	14,688
Total	\$ 177,415	\$ 39,005	\$ 138,410	\$ 136,724

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(Continued)

8. IN-KIND GOODS AND SERVICES:

For the years ended June 30, 2016 and 2015, the Organization recognized the following in-kind contributions in its financial statements:

	2016	2015
Client Assistance:		
Volunteer services	\$ 59,435	\$ 84,516
Special event costs	27,402	26,009
Capitalized costs	697	18,125
Books and program supplies	35,489	17,852
Total	<u>\$ 123,023</u>	<u>\$ 146,502</u>

Wellspring received additional donations of goods and services that while significant, did not meet the recognition criteria, and therefore, were not recognized as contributions in the accompanying financial statements.

9. EMPLOYEE BENEFIT PLANS:

Wellspring House, Inc. offers a SIMPLE IRA retirement plan, to which it is required to match a portion of the employees' elective deferral. The Organization matched \$3,442 and \$4,307 for the years ended June 30, 2016 and 2015, respectively.

10. CONCENTRATION OF CREDIT RISK:

Financial instruments which potentially subject the Organization to a concentration of credit risk consist of cash, investments and receivables. The Organization maintains its cash balances in various financial institutions. At times during the year, the Organization's cash balances may exceed federally insured limits; however, the Organization's cash balances are held at high credit quality financial institutions and management considers credit risk on cash balances to be low.

The Organization maintains an investment portfolio which includes cash equivalents and marketable securities in the form of professionally managed exchange traded funds. The Organization's investments are exposed to various risks, such as fluctuations in market value and credit risk. Thus, it is at least reasonably possible that changes in the near term could materially affect investment balances.

Credit risk with respect to receivables is limited to the credit worthiness of the government entities, individuals and organizations from whom the amounts are due. The Organization has not experienced any losses on such accounts and credit risk is considered low.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(Continued)

11. SURPLUS REVENUE RETENTION:

In accordance with Massachusetts regulation 808 CMR 1.19(3), if a non-profit provider realizes an annual net surplus from the revenues and expenses associated with services provided to purchasing agencies which are subject to 808 CMR 1.00, the provider may retain, for future use, a portion of that surplus not to exceed 5% of said revenues. The cumulative amount of a provider's surplus account may not exceed 20% of the prior years' revenues from purchasing agencies. Surpluses may be used by the provider for any of its established charitable purposes, provided that no portion of the surplus is used for any non-reimbursable cost set forth in 808 CMR 1.15.

As required by the Commonwealth of Massachusetts Department of Procurement and General Services, summarized below is the accumulated surplus (deficit) revenue retention fund pool as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Beginning accumulated surplus (deficit) retention fund pool	\$ (3,062,182)	\$ (2,873,031)
Current year decrease in accumulated surplus revenue retention fund pool	<u>(87,344)</u>	<u>(189,151)</u>
Ending accumulated surplus (deficit) retention fund pool	<u>\$ (3,149,526)</u>	<u>\$ (3,062,182)</u>

12. RECLASSIFICATION:

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation.

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

Board of Directors
Wellspring House, Inc.

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 Wellspring House, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, 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 August 23, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Wellspring House, Inc.'s internal control over financial reporting (internal control) to determine the 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 Wellspring House, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Wellspring House, Inc.'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

A handwritten signature in black ink, appearing to read "BJHC PC". The letters are stylized and slanted.

Topsfield, Massachusetts
August 23, 2016