

WELLSPRING HOUSE, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

WELLSPRING HOUSE, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

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Bernard, Johnson & Company, P.C.

Certified Public Accountants and Business Advisors

INDEPENDENT AUDITORS' 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, 2013, 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, 2013, 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 September 6, 2013, 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 2012 financial statements, and our report dated September 13, 2012, 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, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Topsfield, Massachusetts
September 6, 2013

WELLSPRING HOUSE, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

	ASSETS	2013	2012
CURRENT ASSETS:			
Cash and cash equivalents		\$ 543,672	\$ 529,507
Program services receivable		59,466	70,139
Grants and pledges receivable		35,250	77,750
Investments - Board designated endowment investments		550,892	416,490
Prepaid expenses		4,337	15,651
Total current assets		1,193,617	1,109,537
PROPERTY AND EQUIPMENT - At cost			
Less accumulated depreciation		1,520,097	1,478,438
Net property and equipment		1,029,446	968,005
OTHER ASSETS -			
Loan acquisition costs, net of amortization		435	1,489
TOTAL ASSETS		\$ 1,684,703	\$ 1,621,459
<u>LIABILITIES AND NET ASSETS</u>			
CURRENT LIABILITIES:			
Current portion of long-term debt		\$ 10,986	\$ 10,485
Accounts payable and accrued expenses		24,573	38,603
Accrued payroll and benefits		66,859	51,202
Deferred revenue		1,475	8,823
Total current liabilities		103,893	109,113
LONG-TERM LIABILITIES -			
Long-term debt less current maturities		227,892	238,711
Total liabilities		331,785	347,824
NET ASSETS:			
Unrestricted:			
Undesignated		487,790	438,160
Board designated - endowment		789,723	707,065
Total unrestricted net assets		1,277,513	1,145,225
Temporarily restricted		75,405	128,410
TOTAL NET ASSETS		1,352,918	1,273,635
TOTAL LIABILITIES AND NET ASSETS		\$ 1,684,703	\$ 1,621,459

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

WELLSPRING HOUSE, INC.
STATEMENTS OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2013
with comparative totals for the year ended 2012

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL 2013	TOTAL 2012
REVENUES, GAINS AND OTHER SUPPORT:				
Contributions and grants	\$ 474,096	\$ 209,428	\$ 683,524	\$ 581,438
Fundraising events, net	152,849	-	152,849	156,547
In-kind goods and services	128,362	-	128,362	125,423
Contracted services	450,607	-	450,607	464,955
Rental income	71,439	-	71,439	75,600
Investment income	44,951	-	44,951	3,501
Net assets released from restrictions	262,433	(262,433)	-	-
Total revenues, gains and other support	1,584,737	(53,005)	1,531,732	1,407,464
FUNCTIONAL EXPENSES BEFORE DEPRECIATION AND AMORTIZATION:				
Program services:				
Family shelter	412,847	-	412,847	453,854
Affordable housing	81,327	-	81,327	60,351
Community education	378,368	-	378,368	341,341
Total program services	872,542	-	872,542	855,546
Supporting services:				
General and administrative	282,437	-	282,437	191,165
Fundraising	234,975	-	234,975	248,746
Total supporting services	517,412	-	517,412	439,911
Total functional expenses before depreciation and amortization	1,389,954	-	1,389,954	1,295,457
CHANGE IN NET ASSETS BEFORE DEPRECIATION AND AMORTIZATION	194,783	(53,005)	141,778	112,007
Depreciation and amortization expense	62,495	-	62,495	59,879
TOTAL CHANGE IN NET ASSETS	132,288	(53,005)	79,283	52,128
NET ASSETS AT BEGINNING OF YEAR	1,145,225	128,410	1,273,635	1,221,507
NET ASSETS AT END OF YEAR	\$ 1,277,513	\$ 75,405	\$ 1,352,918	\$ 1,273,635

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

WELLSPRING HOUSE, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013
with comparative totals for the year ended June 30 2012

	Family Shelter	Affordable Housing	Community Education	Total Program Services	General and Administrative	Fundraising	Total 2013	Total 2012
Personnel:								
Salaries	\$ 271,506	\$ 31,337	\$ 203,483	\$ 506,326	\$ 148,897	\$ 128,865	\$ 784,088	\$ 677,258
Payroll taxes	34,463	3,418	26,028	63,909	17,524	15,872	97,305	88,682
Fringe benefits	18,481	3,939	19,587	42,007	10,851	9,874	62,732	44,990
Total personnel expenses	324,450	38,694	249,098	612,242	177,272	154,611	944,125	810,930
In-kind expenses	10,602	-	55,770	66,372	24,838	37,152	128,362	125,423
Contractual services	3,132	-	11,631	14,763	30,942	520	46,225	46,601
Utilities	9,763	13,126	5,176	28,065	5,024	5,024	38,113	38,992
Repairs and maintenance	9,463	8,205	9,756	27,424	3,833	3,833	35,090	29,931
Insurance	6,717	6,714	7,496	20,927	5,258	3,817	30,002	31,226
Network expense	10,303	813	8,676	19,792	2,982	4,338	27,112	18,608
Scholarship/client assistance	14,476	-	8,502	22,978	-	-	22,978	58,139
Professional fees	-	770	-	770	12,619	-	13,389	15,000
Real estate taxes	1,333	6,666	-	7,999	2,667	2,667	13,333	13,071
Interest expense	3,199	2,953	3,445	9,597	1,353	1,353	12,303	12,826
Program supplies	1,220	252	8,798	10,270	1,694	-	11,964	3,563
Telephone and internet	2,113	893	4,174	7,180	1,708	1,802	10,690	10,461
Printing	-	-	-	-	-	10,151	10,151	11,142
Subscriptions/program material	1,620	500	3,246	5,366	697	1,728	7,791	4,374
Food	6,118	2	18	6,138	140	-	6,278	4,911
Postage	23	-	-	23	2,233	2,974	5,230	7,868
Equipment	722	808	956	2,486	1,514	829	4,829	16,809
Bank charges	-	-	-	-	3,729	708	4,437	3,780
Travel	4,195	-	107	4,302	47	19	4,368	4,634
Office expense	1,134	-	131	1,265	1,649	1,056	3,970	18,010
Household supplies	1,362	931	459	2,752	445	445	3,642	3,459
Advertising	-	-	75	75	125	1,849	2,049	650
Miscellaneous	59	-	67	126	1,370	-	1,496	4,498
Staff training	395	-	397	792	298	99	1,189	204
Participant expenses	448	-	390	838	-	-	838	347
Total expenses before depreciation	412,847	81,327	378,368	872,542	282,437	234,975	1,389,954	1,295,457
Depreciation and amortization	21,504	30,721	4,301	56,526	3,511	2,458	62,495	59,879
Total expenses	\$ 434,351	\$ 112,048	\$ 382,669	\$ 929,068	\$ 285,948	\$ 237,433	\$ 1,452,449	\$ 1,355,336

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

WELLSPRING HOUSE, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 79,283	\$ 52,128
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	62,495	59,879
Realized and unrealized (gain) loss on investments	(33,080)	5,328
Cash provided by (used in) changes in:		
Program services receivable	10,673	(11,884)
Grants and pledges receivable	42,500	47,250
Prepaid expenses	11,314	615
Accounts payable and accrued expenses	(14,030)	(8,669)
Accrued payroll and benefits	15,657	5,110
Deferred revenue	(7,348)	(43,148)
NET CASH PROVIDED BY OPERATING ACTIVITIES	167,464	106,609
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(41,659)	(60,630)
Proceeds from sale of investments	22,588	-
Purchases of investments	(123,910)	(43,136)
NET CASH USED IN INVESTING ACTIVITIES	(142,981)	(103,766)
CASH FLOWS FROM FINANCING ACTIVITIES -		
Payments on long-term debt	(10,318)	(9,810)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,165	(6,967)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	529,507	536,474
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 543,672</u>	<u>\$ 529,507</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid during the years for -		
Interest	\$ 12,303	\$ 12,826

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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 generally accepted accounting principles. 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 6.
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.

As required by the FASB *Accounting Standards Codification*TM, 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, 2013 AND 2012
(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 for families has housed more than 736 homeless families. In fiscal year 2013 the Organization sheltered 22 families that included 23 parents and 21 children. Families come into shelter because they lack sufficient income to afford market-rate rents. Wellspring works with each family to increase their income, obtain a job or enroll in school or a job training program. Families receive individual attention to assist in their work of obtaining permanent housing and ensuring that children are enrolled into school or daycare and basic needs like healthcare, food and clothing are provided. An important part of the Organization's work is helping each family expand their network in the community that helps them become more resilient in times of trouble. In fiscal year 2013 the Organization partnered with Horizons for Homeless Children to make available volunteer childcare for several sessions every week so that children had opportunities for play while their mothers were participating in housing search workshops. Volunteers provide important services like making sure birthdays and special occasions are celebrated and that families receive help when they move into their new homes with welcome baskets that may include household supplies, dishes, towels and sheets.

To help families avoid the trauma of homelessness Wellspring provides homeless prevention and advocacy services. During fiscal year 2013 the Organization's Homeless Prevention Fund received 275 calls from Cape Ann residents seeking counseling and financial assistance. Wellspring helped to provide one-time grants to 14 families totaling \$16,746 in the form of rent arrearages or utility payments. Wellspring partners with smallcanbebig.org, and other community resources, to help callers meet their needs. Wellspring House 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 (CARE) Network. CARE is a group of service providers that meets bi-monthly to share information to assist struggling families. Wellspring's 16th annual Holiday Store ensured that 544 children from 248 families had gifts to celebrate the holidays, and parents could still pay their rent and utilities. Donors ensured that 50 children in our shelter and family stabilization program had Back-to-School backpacks and supplies.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)

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

Statements of Functional Expenses (Continued)

Affordable Housing:

In fiscal year 2013 the Organization worked with 38 families (45 adults and 61 children) in the Family Stabilization program. Once a family has moved out of shelter into their new home Wellspring will work with the family for 18 months to ensure that the family successfully navigates the transition. Children are enrolled in school, connections made for medical care, job search is supported and basic needs are met. Wellspring also partnered with the Lynn Housing Authority and Neighborhood Development (LHAND) to provide housing search services to 18 homeless families (20 adults and 26 children) living in Motels on the North Shore. Another 25 families participated in Employment Training and Resource workshops to assist these families in their job search efforts.

Since 1987 Wellspring has owned and operated a lodging house at 11 Chestnut Street, Gloucester that provides permanent housing for 11 low-income individuals. A part-time service coordinator works with these tenants to assist them in connecting with community resources and maintaining their tenancies in good standing.

Community Education:

Education and Job Training are important to a person's ability to break out of poverty. Wellspring creates and provides educational opportunities that nurture both personal and social growth and change. The Organization's education programs provide a continuum of opportunities designed to meet adults who are at different places in the educational journey. The Organization's English Language Program is for adults who are learning English and helps them gain verbal proficiency and basic levels of literacy. This program utilizes volunteer tutors who meet one-on-one with students at the Sawyer Free Library in Gloucester, a community partner. Seventy-two students were served last year.

The Adult Learning Initiative (ALI) is an adult education program that helps students obtain their GED, prepare for college or obtain a job. Students study math, English, computer skills and career development. Three college credits for the computer class are offered by North Shore Community College. Last year 47 students graduated from ALI.

The MediClerk program is a job training program offered in partnership with North Shore Medical Center and prepares students for medical administrative assistant jobs. Thirty-three students participated in fiscal year 2013. MediClerk celebrated its ten year anniversary in fiscal year 2013, and to date has trained 320 students and has an impressive 84% job placement rate.

Wellspring's Robert Clark Rogers Educational Opportunity Fund made seven awards totaling \$9,500 to graduates from Wellspring's education programs who have gone on to higher education opportunities. The Organization also sponsored five students in the One Family Scholars program, with three of them graduating from college in May 2013.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(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. For the years ended June 30, 2013 and 2012 total fundraising expenses were \$293,665 and \$299,484, respectively.

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 September 6, 2013, the date the financial statements were available to be issued.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(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, 2012, 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 Statement of Financial Accounting Standard ASC 820, *Fair Value Measurements*. ASC 820 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. Under ASC 820, 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, ASC 820 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under ASC 820, 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.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(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 service receivables 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, 2013 and 2012, there were no pledges that were considered uncollectible and no bad debts arising from grant commitments.

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 \$1,000 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

The Organization has given consideration to the Financial Accounting Standards Board ASC 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*, in its presentation of these financial statements. As of June 30, 2013, the Organization has not recognized any reduction in the carrying value of its property when considering FASB ASC 360.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)

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

Unamortized Expenses

Intangible assets represent costs incurred in connection with the origination of the mortgage note and are deferred and amortized over the life of the loan. Amortization expense related to these costs amounted to \$1,054 for the years ended June 30, 2013 and 2012.

In-Kind Goods and Services

As required by the *FASB Accounting Standards Codification*TM, Wellspring House, Inc. 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.

2. BOARD DESIGNATED ENDOWMENT INVESTMENTS:

Fair value measurement was determined using Level I inputs. As of June 30, 2013 and 2012 investments costs and unrealized gains and losses consisted of the following:

	June 30, 2013		June 30, 2012	
	Cost	Market Value	Cost	Market Value
Cash equivalents	\$ 238,831	\$ 238,831	\$ 290,575	\$ 290,575
Exchange traded funds	498,846	550,892	397,705	416,490
	<u>\$ 737,677</u>	<u>\$ 789,723</u>	<u>\$ 688,280</u>	<u>\$ 707,065</u>

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, 2013 and 2012 is comprised of the following:

	2013	2012
Interest and dividends	\$ 11,871	\$ 8,829
Realized gain (loss) on investments	(181)	-
Unrealized gain (loss) on investments	33,261	(5,328)
	<u>\$ 44,951</u>	<u>\$ 3,501</u>

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)

3. PROPERTY AND EQUIPMENT:

At June 30, 2013 and 2012, property and equipment was comprised as follows:

	2013	2012
Land	\$ 83,957	\$ 83,957
Buildings	685,779	685,779
Improvements	596,145	589,225
Furniture and equipment	154,216	119,477
	<u>1,520,097</u>	<u>1,478,438</u>
Less accumulated depreciation	<u>1,029,446</u>	<u>968,005</u>
Property and equipment - net	<u>\$ 490,651</u>	<u>\$ 510,433</u>

Depreciation of property and equipment was \$61,441 and \$58,825 for the years ended June 30, 2013 and 2012, respectively.

4. 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, should the Organization have unrelated business income it would be taxable.

The Organization adopted the ASC 740, *Accounting for the Uncertainty in Income Taxes* standard which requires the Organization to report uncertain tax positions, related interest and penalties. As of June 30, 2013, the Organization determined that there were no material uncertain tax positions to report.

For the years ended June 30, 2013 and 2012, no provision for income taxes has been made. The Organization is subject to audit by tax authorities. The Organization believes that it has appropriate support for the positions taken on its tax returns.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)

5. LONG-TERM DEBT:

At June 30, 2013 and 2012 long-term debt was comprised as follows:

	<u>2013</u>	<u>2012</u>
Real estate mortgage payable - bank, secured by real estate at Essex Avenue, Washington Street and Chestnut Street, Gloucester, Massachusetts, monthly payments of \$1,782, including interest at 5.16%, matures November, 2016	\$ 225,911	\$ 235,216
Assessment for sewer betterment - City of Gloucester, annual payments of \$1,013 at an annual interest rate of 1.56%, matures May, 2026	12,967	13,980
	<u>238,878</u>	<u>249,196</u>
Less - current portion of long-term debt	<u>(10,986)</u>	<u>(10,485)</u>
	<u>\$ 227,892</u>	<u>\$ 238,711</u>

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

June 2014	\$ 10,986
2015	11,512
2016	12,067
2017	195,397
2018	1,013
Thereafter	7,903

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% (4.25% as of June 30, 2013 and 2012). There were no loans outstanding at June 30, 2013 and 2012.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)

6. 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.

As of June 30, 2013 and 2012, the aggregate balance of the board designated Endowment Fund was \$789,723 (of which \$208,426 represents the Rogers Education Opportunity Fund) and \$707,065 (of which \$199,354 represents the Rogers Education Opportunity Fund), respectively, which is held in exchange traded funds, certificates of deposit and cash equivalents. Composition of and changes in endowment net assets for the years ended June 30, 2013 and 2012 were as follows:

	2013	2012
Board designated Endowment Fund, beginning of year	\$ 707,065	\$ 648,731
Investment return:		
Investment income	11,259	8,601
Net appreciation (depreciation)	33,261	(5,328)
Contributions and designations	53,200	63,205
Transfers to (from) board designated Endowment Fund	(1,000)	(2,431)
Amounts appropriated for expenditure	(13,918)	(5,569)
Administrative expenses	(144)	(144)
Board designated Endowment Fund, end of year	<u>\$ 789,723</u>	<u>\$ 707,065</u>

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)

6. 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, 2013 and 2012:

	2013	2012
Restricted for future use	\$ 35,250	\$ 77,750
Building renovations	18,349	25,660
Technology	11,960	-
Housing stabilization	6,100	-
Strategic plan	3,746	-
Education program	-	12,500
Medi-Clerk	-	12,500
Total	<u>\$ 75,405</u>	<u>\$ 128,410</u>

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

	2013	2012
Time restrictions elapsed	\$ 77,750	\$ 50,000
Medi-clerk	56,552	26,900
Foundations/adult learning initiative	54,250	86,117
Shelter renovations	19,350	59,500
Education program	17,500	105,050
Strategic plan	16,254	-
Housing stabilization	15,187	16,072
Technology	5,340	-
Other	250	4,905
Total	<u>\$ 262,433</u>	<u>\$ 348,544</u>

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)

7. GOVERNMENT CONTRACTS:

Wellspring House, Inc. is a party to purchase of service contracts with the Massachusetts Department of Housing and Community Development 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 \$260,975 for the years ended June 30, 2013 and 2012.

During the years ended June 30, 2013 and 2012, Wellspring received a second component to its shelter contract to fund a full-time stabilization case manager position. Funds received under this cost reimbursement contract amounted to \$52,000 for the years ended June 30, 2013 and 2012.

Total revenues arising from the above contracts amounted to \$312,975, representing 22% and 24% of total support and revenues for the years ended June 30, 2013 and 2012, respectively.

8. 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	
			2013	2012
Women Honoring Women Luncheon	\$ 124,092	\$ 18,218	\$ 105,874	\$ 91,902
Concert	55,900	16,739	39,161	44,470
Holiday Store	29,089	21,275	7,814	8,108
Giggles Comedy Night	-	-	-	11,480
Other	-	-	-	587
Total	\$ 209,081	\$ 56,232	\$ 152,849	\$ 156,547

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)

9. IN-KIND GOODS AND SERVICES:

For the years ended June 30, 2013 and 2012, the Organization recognized the following in-kind contributions in its financial statements:

	2013	2012
Client Assistance:		
Volunteer services	\$ 73,623	\$ 83,792
Special event costs	27,824	26,013
Computer software	11,524	-
Books and program supplies	10,139	11,917
Office supplies	5,252	3,701
	<hr/>	<hr/>
Total	\$ 128,362	\$ 125,423

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.

10. 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 \$859 and \$697 for the years ended June 30, 2013 and 2012, respectively.

11. 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 Organizations cash balance 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.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)

11. CONCENTRATION OF CREDIT RISK (Continued):

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.

12. 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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Beginning accumulated surplus (deficit) retention fund pool	\$ (2,453,101)	\$ (2,269,757)
Current year increase in accumulated surplus revenue retention fund pool	<u>(213,322)</u>	<u>(183,344)</u>
Ending accumulated surplus retention fund pool	<u><u>\$ (2,666,423)</u></u>	<u><u>\$ (2,453,101)</u></u>

13. RECLASSIFICATION:

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation.



Bernard, Johnson & Company, P.C.

Certified Public Accountants and Business Advisors

INDEPENDENT AUDITORS' 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, 2013, 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 September 6, 2013.

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.


Bernard Johnson & Co., P.C.
Topsfield, Massachusetts
September 6, 2013