WELLSPRING HOUSE, INC.

FINANCIAL STATEMENTS

with

INDEPENDENT AUDITORS' REPORT

YEARS ENDED JUNE 30, 2010 AND 2009

Smith Sullivan
& Company PC
CERTIFIED PUBLIC ACCOUNTANTS
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WELLSPRING HOUSE, INC

REPORT ON FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

Mission Statement

*Wellspring is a community of faith, aware that each life touches every other life.
Our work and our decisions are therefore guided by the vision of a just society,
in which we must care for the earth and her people by using our resources,
property and land in a spirit of hospitality. In this spirit we work to
meet basic human needs, and participate in social change
through the provision of shelter, affordable housing,
local economic opportunity and education
rooted in community needs.*

www.wellspringhouse.org

WELLSPRING HOUSE, INC.

REPORT ON FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

C O N T E N T S

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Wellspring House, Inc.
Gloucester, Massachusetts

We have audited the accompanying statement of financial position of Wellspring House, Inc. (a Massachusetts nonprofit corporation) as of June 30, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Wellspring House, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Wellspring House, Inc.'s fiscal year 2009 financial statements and, in our report dated October 6, 2009, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 5, 2010 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, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Smith, Sullivan & Company PC

Westborough, Massachusetts
October 5, 2010

WELLSPRING HOUSE, INC.

STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2010 AND 2009

ASSETS

	2010	2009
CURRENT ASSETS:		
Cash and Cash Equivalents *(Note 15)*	$ 284,704	$ 331,660
Grants and Pledges Receivable	75,000	134,036
Contracts Receivable, Commonwealth of Massachusetts *(Note 9)*	56,833	32,500
Due from Affiliates *(Note 16)*	-	6,238
Other Program Service Receivables	31,470	12,603
Prepaid Expenses	13,925	13,400
Total Current Assets	461,932	530,437
PROPERTY AND EQUIPMENT: *(Note 5)*		
Property and Equipment	1,414,858	1,887,236
Less: Accumulated Depreciation	(834,227)	(882,311)
Net Property and Equipment	580,631	1,004,925
NON-CURRENT ASSETS:		
Board Designated Endowment Investments *(Notes 4, 8 and 15)*	593,286	515,572
Grants and Pledges Receivable	125,000	150,000
Loan Acquisition Costs, Net of Amortization *(Note 6)*	3,597	4,650
Total Non-Current Assets	721,883	670,222
TOTAL ASSETS	$1,764,446	$2,205,584

LIABILITIES AND NET ASSETS

	2010	2009
CURRENT LIABILITIES:		
Current Portion of Long-Term Debt *(Note 6)*	$ 8,502	$ 14,498
Line-of-Credit *(Note 7)*	-	106,000
Accounts Payable and Accrued Expenses	67,536	48,861
Accrued Payroll and Benefits	47,995	56,273
Total Current Liabilities	124,033	225,632
NON-CURRENT LIABILITIES:		
Long-Term Debt, Net of Current Portion *(Note 6)*	258,245	454,007
TOTAL LIABILITIES	382,278	679,639
NET ASSETS: *(Note 8)*		
Unrestricted:		
Undesignated	464,900	669,108
Board Designated - Endowment	593,286	515,572
Total Unrestricted Net Assets	1,058,186	1,184,680
Temporarily Restricted	323,982	341,265
Total Net Assets	1,382,168	1,525,945
TOTAL LIABILITIES AND NET ASSETS	$1,764,446	$2,205,584

WELLSPRING HOUSE, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010
(With Summarized Comparative Totals for 2009)

	UNRESTRICTED		TOTAL	TEMPORARILY	TOTAL ACTIVITIES	
	OPERATIONS	BOARD DESIGNATED	UNRESTRICTED	RESTRICTED	2010	2009
SUPPORT, REVENUES AND RECLASSIFICATIONS:						
Gifts, Grants and Contributions:						
Contributions and Grants	$ 391,676	$ 10,150	$ 401,826	$ 213,445	$ 615,271	$ 883,049
Fund Raising Events, Net *(Note 11)*	108,270	-	108,270	11,216	119,486	342,490
In-Kind Goods and Services *(Note 12)*	105,542	-	105,542	-	105,542	207,562
Total Gifts, Grants and Contributions	605,488	10,150	615,638	224,661	840,299	1,433,101
Program Service Revenue:						
Contracted Services *(Note 9 and 16)*	482,696	-	482,696	-	482,696	388,953
Rental Income	86,639	-	86,639	-	86,639	94,202
Total Program Service Revenue	569,335	-	569,335	-	569,335	483,155
Investment and Other Income:						
Investment Income *(Note 4)*	380	23,414	23,794	-	23,794	12,991
Other Income	-	-	-	-	-	183
Total Investment and Other Income	380	23,414	23,794	-	23,794	13,174
Reclassification of Net Assets: (Note 8)						
Satisfaction of Donor Restrictions	191,944	50,000	241,944	(241,944)	-	-
TOTAL SUPPORT, REVENUES AND RECLASSIFICATIONS	**1,367,147**	**83,564**	**1,450,711**	**(17,283)**	**1,433,428**	**1,929,430**
FUNCTIONAL EXPENSES AND LOSSES:						
Program Services: (Note 2)						
Family Shelter	448,619	-	448,619	-	448,619	443,332
Affordable Housing	193,204	-	193,204	-	193,204	173,762
Family Support Programs	188,980	-	188,980	-	188,980	157,005
Education	320,194	4,588	324,782	-	324,782	459,047
Total Program Services	1,150,997	4,588	1,150,997	-	1,155,585	1,233,146
Supporting Services:						
Administrative	297,296	1,262	298,558	-	298,558	350,545
Fund Raising	224,115	-	224,115	-	224,115	291,652
Total Supporting Services	521,411	1,262	522,673	-	522,673	642,197
Losses:						
Investment Losses *(Note 4)*	-	-	-	-	-	110,756
TOTAL FUNCTIONAL EXPENSES AND LOSSES	**1,672,408**	**5,850**	**1,678,258**	**-**	**1,678,258**	**1,986,099**
CHANGE IN NET ASSETS - CONTINUING OPERATIONS	**(305,261)**	**77,714**	**(227,547)**	**(17,283)**	**(244,830)**	**(56,669)**
OTHER CHANGES IN NET ASSETS:						
Extraordinary Item - Gain on Sale of Property *(Note 5)*	101,053	-	101,053	-	101,053	-
TOTAL CHANGE IN NET ASSETS	**(204,208)**	**77,714**	**(126,494)**	**(17,283)**	**(143,777)**	**(56,669)**
NET ASSETS - BEGINNING OF YEAR	**669,108**	**515,572**	**1,184,680**	**341,265**	**1,525,945**	**1,582,614**
NET ASSETS - END OF YEAR	**$ 464,900**	**$593,286**	**$1,058,186**	**$ 323,982**	**$1,382,168**	**$1,525,945**

WELLSPRING HOUSE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010
(With Summarized Comparative Totals for 2009)

	FAMILY SHELTER	AFFORDABLE HOUSING	FAMILY SUPPORT PROGRAMS	EDU-CATION	TOTAL PROGRAM SERVICES	ADMINI-STRATIVE	FUND-RAISING	TOTAL FUNCTIONAL EXPENSES 2010	TOTAL FUNCTIONAL EXPENSES 2009
Salaries	$ 179,569	$ 58,375	$ 92,036	$208,191	$ 538,171	$178,041	$150,891	$ 867,103	$1,027,191
Payroll Taxes	23,531	5,480	8,471	25,362	62,844	13,593	12,539	88,976	104,180
Fringe Benefits *(Note 13)*	16,087	3,011	4,901	14,124	38,123	5,844	5,528	49,495	45,648
Total Salaries and Related Expenses	219,187	66,866	105,408	247,677	639,138	197,478	168,958	1,005,574	1,177,019
Advertising *(Note 3)*	659	100	375	25	1,159	-	450	1,609	3,490
Bank Charges	-	-		-	-	5,026	645	5,671	2,791
Child Care	-	-	1,509	-	1,509	-	-	1,509	3,107
Contractual Services	6,740	33,053	924	11,100	51,817	13,615	7,819	73,251	94,838
Depreciation and Amortization *(Notes 5 and 6)*	27,085	37,212	1,116	4,521	69,934	1,608	565	72,107	64,711
Equipment Rental and Repair	-	3,313	-	-	3,313	-	410	3,723	5,716
Food	2,138	849	3,342	43	6,372	157	-	6,529	13,442
Household Supplies	921	3,230	2	-	4,153	-	-	4,153	4,523
Insurance	15,522	8,085	1,294	5,497	30,398	3,483	647	34,528	36,916
Interest Expense	10,308	5,368	859	3,651	20,186	6,839	429	27,454	43,199
Meeting Expense	62	-	2,972	33	3,067	527	2,126	5,720	3,496
Miscellaneous	290	1,126	356	-	1,772	3,314	39	5,125	5,197
Network Expense	1,617	524	1,499	1,318	4,958	8,699	1,172	14,829	19,065
Office Expense	2,350	673	1,522	4,535	9,080	3,307	3,223	15,610	21,196
Participants Expenses	2,039	-	30	751	2,820	-	-	2,820	1,220
Postage	312	105	223	428	1,068	1,515	5,016	7,599	20,958
Printing	-	-	583	-	583	-	18,494	19,077	33,371
Professional Fees, Audit Expense	-	-	-	-	-	36,320	-	36,320	28,000
Program Supplies	805	-	1,163	868	2,836	-	-	2,836	6,586
Real Estate Taxes *(Note 14)*	10,091	5,256	841	3,574	19,762	841	420	21,023	22,359
Rent *(Note 10)*	-	4,721	-	-	4,721	-	-	4,721	-
Repairs and Maintenance	19,958	10,395	6,454	7,068	43,875	1,663	832	46,370	52,138
Scholarship/Client Assistance	90,625	2,160	-	4,588	97,373	-	-	97,373	23,140
Staff Training	115	-	775	-	890	398	175	1,463	2,412
Subscriptions/Program Material	1,900	-	-	1,347	3,247	130	1,497	4,874	5,071
Telephone and Internet	2,828	714	258	3,692	7,492	2,034	2,172	11,698	16,539
Travel	1,394	418	244	762	2,818	126	62	3,006	6,358
Utilities	17,349	9,036	1,446	6,144	33,975	1,446	723	36,144	45,923
Total Operating Expenses	434,295	193,204	133,195	307,622	1,068,316	288,526	215,874	1,572,716	1,762,781
In-Kind Expenses *(Note 12)*	14,324	-	55,785	17,160	87,269	10,032	8,241	105,542	112,562
Total Functional Expenses	**$448,619**	**$193,204**	**$188,980**	**$324,782**	**$1,155,585**	**$298,558**	**$224,115**	**$1,678,258**	**$1,875,343**

WELLSPRING HOUSE, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	$(143,777)	$ (56,669)
Adjustments to Reconcile the Above to Net Cash Provided (Used) by Operating Activities:		
Donated Equipment	-	(30,000)
Depreciation and Amortization Expense	72,107	64,711
Gain on Sale of Emerson Avenue Property	(101,053)	-
Investment (Gains) Losses	(23,794)	97,765
(Increase) Decrease in Current Assets:		
Grants and Pledges Receivable	84,036	(245,428)
Contracts Receivable	(24,333)	(32,500)
Due from Affiliates	6,238	4,714
Pledges Receivable from Related Parties	-	7,500
Other Program Service Receivables	(18,867)	(3,894)
Prepaid Expenses	(525)	12,906
Increase (Decrease) in Current Liabilities:		
Accounts Payable and Accrued Expenses	18,675	(11,040)
Accrued Payroll and Benefits	(8,278)	6,809
Net Adjustment	4,206	(128,457)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**(139,571)**	**(185,126)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Board Designated Endowment Investments	(60,150)	(51,050)
Equipment Purchases and Building Renovations	(44,000)	(65,646)
Reclassification of Cash	-	690,676
Proceeds from Sale of Emerson Avenue Property, Net of Settlement Charges	500,438	-
Investment Income	261	433
Net Cash Flows from Investing Activities	396,549	574,413
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from (Repayment of) Line-of-Credit	(106,000)	(84,000)
Principal Reduction on Long-Term Debt	(201,758)	(12,326)
Assessments Payable	(2,026)	(1,013)
Expenses Paid from Board Designated Endowment Investments	5,850	3,369
Net Cash Flows from Financing Activities	(303,934)	(93,970)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(46,956)**	**295,317**
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	**331,660**	**36,343**
CASH AND CASH EQUIVALENTS - END OF YEAR	**$ 284,704**	**$ 331,660**
Supplemental Disclosures:		
Interest Paid	*$ 27,454*	*$ 43,199*
Income Tax Paid	*$ -*	*$ -*

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 1 ORGANIZATION AND AFFILIATIONS

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.

Rockport Lodge, Inc.:

On May 25, 2004, Wellspring House, Inc. became the sole member in another nonprofit organization, Rockport Lodge, Inc., through a judgment made by the Massachusetts Probate and Family Court. For FY 2004 through FY 2008, Rockport Lodge, Inc. was considered a subsidiary of Wellspring House, Inc. On May 6, 2009, Rockport Lodge, Inc. was dissolved by the Massachusetts Supreme Judicial Court, at which time assets totaling $689,750 were transferred to Wellspring House, Inc.

One Family, Inc.:

Wellspring participated in the One Family Scholars program in collaboration with other nonprofit organizations. One Family, Inc. is a separate organization whose Board of Directors includes a Wellspring Board Member.

NOTE 2 PROGRAM SERVICES

Wellspring Family Shelter:

The Organization's emergency shelter program for homeless families has been in continuous operation since 1981. The families (both single parent and two parent families of all ages, races and backgrounds) are sheltered because market-rate rents are beyond their means and their housing is unsafe or unhealthy. The Organization has sheltered more than 600 homeless families since it first opened. In FY 2010, Wellspring provided emergency shelter for 17 families that included 17 adults and 17 children.

Affordable Housing:

Wellspring House, Inc. has long understood that the true solution to homelessness is an adequate supply of safe, affordable housing. While the Organization has always provided shelter to homeless families, it also has a long history of working to increase affordable housing in the community.

Between 1984 and 1989 Wellspring purchased and renovated three properties in downtown Gloucester that provided safe, affordable homes to 22 low-income residents. The Organization still owns and operates two of these buildings today.

NOTE 2 *(Continued)*

Family Support Programs:

Concern for families is at the heart of Wellspring's work. It is clear that families who are connected with and participate in the life of their community are healthier and more resilient in the face of challenges. The innovative and supportive programming of Wellspring's Cape Anne Families (WCAF) includes the nationally recognized Nurturing Program for families, teen leadership and service project, a mentoring program that matches community volunteers with parents in need of support, semi-weekly parent support groups, free workshops during school vacation weeks for kids and educational workshops for the whole family during the school year addressing timely topics such as "When is your child ready to be left home alone?" and internet safety. In FY 2010, WCAF served over 942 parents and children.

Community Education:

As part of its fundamental commitment to facilitate permanent solutions to homelessness and poverty, Wellspring's mission has always been to "provide education to facilitate personal and social growth and change". The Organization has carried out this mission since 1981 by providing educational programs for low-income members of the community. All of Wellspring's education programs have been established because of its belief that education provides the skills and opportunities that significantly improve the possibilities for families to break out of poverty. Aspirations for the participants of these programs include jobs that pay a living wage, offer reasonable benefits and the possibility of future advancement. To that end, Wellspring offers a continuum of education: ESOL (English for Speakers of Other Languages); the Adult Learning Initiative (ALI), a GED and college preparation program that also offers 3 college credits for computer classes in partnership with North Shore Community College; MediClerk, a job training program offered in collaboration with North Shore Medical Center. Wellspring provided 8 scholarships from the Robert Clark Rogers Fund for college-bound graduates of Wellspring's programs.

In December of 2007, Wellspring began operating the Adult Learning Center located in the Sawyer Free Library. The Center offers an ESOL program which has become increasingly important as 10% of Gloucester residents do not speak English at home according to the 2000 Census data. In FY 2010, 76 students and 27 tutors participated in the program. In FY 2010, the Community Education program of the Organization served over 170 low income women and men.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies which affect significant elements of the Organization's financial statements are described below to enhance the usefulness of the financial statements to the reader. The preparation of financial statements in conformity with 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; however, adherence to generally accepted accounting principles, has in management's opinion, resulted in reliable and consistent financial reporting by the Organization. The following policies should be read in conjunction with the accompanying notes to the financial statements.

NOTE 3 *(Continued)*

Basis 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 a liability has been incurred.

Fair Value of Financial Instruments:

In accordance with generally accepted accounting principles, the Organization adopted the provisions of Fair Value Measurements, and has applied its provisions to assets and liabilities that are recognized or disclosed at fair value on a recurring or nonrecurring basis (at least annually). Fair value measurement defines fair value, establishes a framework for measuring fair value, establishes a three-level fair value hierarchy based on the quality of inputs used to measure fair value and enhances the disclosure requirements for fair value measurements.

The three levels of the fair value hierarchy are as follows:

Level 1 - inputs to the valuation methodology are quoted market prices for identical assets or liabilities in active markets.

Level 2 - inputs to the valuation methodology include quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3 - inputs to the valuation methodology are based on prices or valuation techniques that are unobservable.

Financial Statement Presentation:

In accordance with generally accounting principles, the Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. These classifications are related to the existence or absence of donor-imposed restrictions as listed below:

Unrestricted Net Assets - consists of assets, public support and program revenues which are available and used for operations, programs, and capital expenditures. Unrestricted net assets represents the portion of net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. In addition, unrestricted net assets of the Organization includes funds which represent unrestricted resources designated by the Board of Directors for specific purposes as further described in Note 8.

Temporarily Restricted Net Assets - includes funds with donor-imposed restrictions which permit the Organization to expend the assets as specified and is satisfied either by the passage of time or by actions of the Organization. Resources of this nature originate from gifts, grants, bequests, contracts and investment income earned on restricted funds.

NOTE 3 *(Continued)*

Permanently Restricted Net Assets - includes resources which have a permanent donor-imposed restriction which stipulates that the assets are to be maintained permanently, but permits the Organization to expend part or all of the income derived from the donated assets. For the years presented, the Organization did not have any assets of this nature.

The accompanying financial statements include certain FY 2009 comparative information. With respect to the Statement of Activities, such prior year information is not presented by net asset class and, in the Statement of Functional Expenses, FY 2009 expenses by line item are in total rather than by functional category. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

Cash and Cash Equivalents:

For the purpose of these financial statements, cash and cash equivalents are defined as cash balances maintained in checking and savings accounts and certificates of deposit with original maturities of less than ninety days which are available for current operations. Fair value approximates carrying value due to the short maturities of those instruments and are classified within Level 1 of the fair value hierarchy.

Grants and Pledges Receivable:

Grants and Pledges Receivable represents 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. For the years presented, non-current *Grants and Pledges Receivable* are due within one to five years. Additionally, the FY 2010 balance consists of two pledges in the amounts of $50,000 and $150,000, and in the prior year, one pledge in the amount of $200,000 represents 70% of total *Grants and Pledges Receivable*. These amounts are considered fully collectible by management; consequently, these financial statements do not contain a provision for uncollectible pledges. Therefore, if pledges become uncollectible, they will be charged to activities when that determination is made. For the years ended June 30, 2010 and 2009, there were no pledges that were considered uncollectible and no bad debts arising from grant commitments.

Property and Equipment:

Property, equipment, furnishing and improvement purchases in excess of $1,000 are capitalized at cost, if purchased, or if donated, at the fair market value on the date of receipt. Expenditures for maintenance, repairs and renewals are charged to expense as incurred, whereas major betterments are capitalized as additions to property and equipment. Depreciation of property and equipment is computed using the straight-line method, and is charged against support and revenues over the estimated useful lives of the assets as expressed in terms of years.

Contributions, Gifts and Grants:

In accordance with generally accepted accounting principles, 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.

NOTE 3 *(Continued)*

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. 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 restriction expires, 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.

In-Kind Goods and Services:

In accordance with generally accepted accounting principles, Wellspring House 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 Statement of Activities and are listed as expenses on the Statement of Functional Expenses, or as Direct Costs of Fund Raising 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.

Functional Expenses:

Wellspring House, Inc. allocates its expenses on a functional basis among its programs and supporting services. Expenses that can be identified with a specific program and supporting service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated according to space and time usage. Supporting services are those related to operating and managing the Organization’s programs on a day-to-day basis. Supporting services have been sub-classified as follows:

Administrative - includes all activities related to the Organization’s internal management and accounting for program services.

Fund Raising - 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. Fund raising expenses also included the indirect costs of special fund raising events, while direct costs are netted against event proceeds. For the years presented, total fund raising expenses were $241,918 and $463,941, respectively.

Advertising:

Wellspring House, Inc. uses advertising to promote its programs and events, and for staff recruitment. Advertising costs are expensed as incurred. *Advertising Expense* was $1,609 and $3,490 for the years ended June 30, 2010 and 2009, respectively.

NOTE 3 *(Continued)*

Tax Position:

Accounting Standards for Income Taxes provide detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an organization's financial statements. The Organization adopted the provisions of this standard on July 1, 2009. The implementation of this standard did not have any impact on the financial position or net assets of the Organization.

The primary tax positions made by the Organization are the existence of Unrelated Business Income Tax and the Organization's status as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Organization currently evaluates all tax positions, and makes a determination regarding the likelihood of those positions being upheld under review. For the years presented, the Organization has not recognized any tax benefits or loss contingencies for uncertain tax positions based on this evaluation. All tax periods prior to FY 2006 are no longer subject to examination by tax authorities.

NOTE 4 BOARD DESIGNATED ENDOWMENT INVESTMENTS

The Organization maintains an investment portfolio which includes marketable equity securities in the form of mutual funds, certificates of deposit and cash balances. 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. In accordance with generally accepted accounting principles, investments are reported at their fair value, including unrealized gains and losses which are recognized in the current period Statement of Activities.

All investments included in *Board Designated Endowment Investments* in the accompanying financial statements are held in certificates of deposits and mutual funds which are classified within Level 1 of the fair value hierarchy.

As of June 30, 2010 and 2009, long-term investments costs and unrealized gains and losses consisted of the following components:

	June 30, 2010			
Investment Type	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash	$379,357	$ -	$ -	$379,357
Mutual Funds	272,519	-	(58,590)	213,929
Total	$651,876	$ -	$(58,590)	$593,286

	June 30, 2009			
Investment Type	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash	$323,040	$ -	$ -	$323,040
Mutual Funds	268,452	-	(75,920)	192,532
Total	$591,492	$ -	$(75,920)	$515,572

NOTE 4 *(Continued)*

Composition of Investment Return	2010	2009
Interest and Dividends	$ 6,464	$ 12,991
Realized Gains (Losses)	-	-
Unrealized Gains (Losses)	17,330	(110,756)
Total	$23,794	$ (97,765)

NOTE 5 PROPERTY AND EQUIPMENT

The following is a fixed asset summary as of June 30, 2010 and 2009:

Asset Category	Est. Life	2010	2009
Wellspring Land	-	$ 83,957	$ 273,957
Buildings	30	685,779	932,566
Improvements	20	529,726	536,693
Furniture and Equipment	5-10	115,396	144,020
Subtotal		1,414,858	1,887,236
Less: Accumulated Depreciation		(834,227)	(882,311)
Net Property and Equipment		$ 580,631	$1,004,925

Depreciation Expense for the years ended June 30, 2010 and 2009 was $71,053 and $63,657, respectively.

On February 28, 2010, the Organization sold its Emerson Avenue property to The Open Door/Cape Ann Food Pantry, Inc. for $500,000. The financial effect from this transaction was a net gain of $101,053, which is reported in the FY 2010 Statement of Activities as an extraordinary item in Other Changes in Net Assets. After the sale, Wellspring entered into a lease agreement with The Open Door/Cape Ann Food Pantry, Inc. *(See Note 10).*

NOTE 6 DEBT

Mortgage Note:

	2010	2009
Note payable TD Bank, N.A.; dated November 26, 2003, amortized on a 25-year schedule with a 10-year term maturing November 26, 2013; secured by property on Essex Avenue, Washington Street, and Chestnut Street; requiring monthly payments of $1,943, including principal and interest at 6.31%.	$251,794	$258,704

NOTE 6 *(Continued)*

Note payable TD Bank, N.A.; dated May 10, 2000 at 8.75% (3-year adjustable to base lending rate less .25%); adjusted to 7.75% effective May 10, 2006; original principal of $240,000 maturing May 10, 2025; secured by property on Emerson Avenue; requiring monthly payments of $2,116 including principal, interest and real estate tax escrow. Note was paid in full as of June 30, 2010 *(See Note 5)*.	-	192,783
Assessments Payable:		
Assessment for sewer betterment due to the City of Gloucester in the original amount of $20,057; payable over a 20-year apportionment with annual principal payments of $1,013 at an annual interest rate of 1.56%. Two principal payments were made during FY 2010.	$ 14,993	$ 17,018
Total Debt	266,747	468,505
Less: Current Portion	(8,502)	(14,498)
Long-Term Portion	$258,245	$454,007

The aggregate portion of these debts maturing in the next fiscal year is $8,502, which has been classified as a current liability. A schedule of maturities of the long-term portion of these debts is as follows:

Fiscal Year Ending	Amount
June 30, 2012	$ 8,991
June 30, 2013	9,512
June 30, 2014	228,801
June 30, 2015	1,013
June 30, 2016	1,013
Thereafter	8,915
Total	$258,245

The fair value of the above debt approximates carrying value since stated rates are similar to rates currently available to the Organization for debt with similar terms and remaining maturities and are classified within Level 1of the fair value hierarchy.

Loan Acquisition Costs:

Loan Acquisition Costs of $10,536, associated with the TD Bank, N.A. refinancing of the bundle mortgage on November 26, 2003, are subject to amortization over the term of the loan. Amortization expense related to these costs amounted to $1,054 for each of the years presented.

NOTE 7 LINE-OF-CREDIT

On November 26, 2003, Wellspring House, Inc. obtained a $265,000 line-of-credit with TD Bank, N.A. The line bears interest at a floating rate per annum equal to the sum of the Prime Rate plus 1% (5.5% and 6% as of June 30, 2010 and 2009, respectively) and is subject to annual review. Borrowings under the line-of-credit are due upon demand, and the line is secured by a second mortgage on the Chestnut Street, Essex Avenue and Washington Street properties, as well as all equipment, appliances, furnishings and fixtures, therein. As of June 30, 2010 and 2009, amounts due under this line-of-credit were $0 and $106,000, respectively.

The fair value of the above debt approximates carrying value since stated rates are similar to rates currently available to the Organization for debt with similar terms and remaining maturities and are classified within Level 1of the fair value hierarchy.

NOTE 8 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 Endowment Policy was adopted and a Committee was appointed to invest the funds in socially responsible mutual 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.

The aggregate balance as of June 30, 2010 and 2009 for the Board Designated Endowment Fund was $593,286 (of which amount, $169,891 represents the Rogers Education Opportunity Fund) and $515,572 (of which amount, $156,505 represents the Rogers Education Opportunity Fund), respectively, which is held in mutual funds and cash and is included as *Board Designated Endowment Investments* in the accompanying Statements of Financial Position. During FY 2009, the Board voted to replenish the Endowment for $156,446, which is reported as FY 2009 designations.

Composition of and changes in endowment net assets for the year ended June 30, 2010 and 2009 were as follows:

	2010	2009
Board Designated Endowment Net Assets, Beginning of Year	$515,572	$409,635
Investment Return:		
Investment Income	5,940	12,558
Net Appreciation (Depreciation)	17,331	(110,756)
Contributions	10,150	51,050
Transfers to Board Designated Endowment Funds	50,000	156,446
Amounts Appropriated for Expenditure	(4,588)	(3,041)
Administrative Expenses	(1,119)	(320)
Board Designated Endowment Net Assets, End of Year	$593,286	$515,572

NOTE 8 *(Continued)*

Temporarily restricted net assets include unexpended contributions and grants restricted by the donors for the following purposes as of June 30, 2010 and 2009:

Nature of Restriction	2010	2009
Restricted for Future Use	$150,000	$200,700
Housing Stabilization	34,681	18,220
Shelter Renovations	895	36,900
Affordable Housing	3,887	13,505
Education Program	62,467	39,968
Medi-Clerk	37,500	-
Wellspring Cape Ann Families	-	15,000
Holiday Store	26,552	16,972
Wellspring Exchange Program	8,000	-
Total	$323,982	$341,265

Net assets released from temporary donor restrictions by incurring expenses which satisfied the restricted purpose, by the passage of time or by the occurrence of events specified by the donors were as follows for the years presented:

Nature of Restriction	2010	2009
Time Restrictions Elapsed	$ 50,000	$ -
Housing Stabilization	11,538	10,277
Shelter Renovations	36,005	-
Affordable Housing	9,618	63,316
Education Program	16,000	14,196
Foundations/Adult Learning Initiative	30,000	52,250
Medi-Clerk	22,145	68,750
Wellspring Cape Ann Families	64,300	51,600
Holiday Store	1,638	-
Other	700	750
Total	$241,944	$261,139

NOTE 9 GOVERNMENT CONTRACTS

Commonwealth of Massachusetts - Department of Housing and Community Development (DHCD):

Wellspring House, Inc. is a party to purchase of service contracts with the Massachusetts Department of Housing and Community Development (formerly, these contracts were administered by the Massachusetts Department of Transitional Assistance) to provide emergency shelter and related services to homeless families referred by the DHCD. The primary contract is administered on a unit rate basis; accordingly, the funding source is billed as services are provided, and unrestricted program service fees, along with the related receivable are recorded in the period during which the costs were incurred and services were delivered. Total billings under the DHCD shelter contract amounted to $283,450 and $268,984 for the years ended June 30, 2010 and 2009, respectively.

NOTE 9 *(Continued)*

In FY 2010, Wellspring House received two additional contracts through DHCD to provide housing placements and direct assistance in the form of rental subsidiaries. For the year ended June 30, 2010, WSH received funding of $79,781 for direct client assistance and $34,750 for housing placements.

The Organization was owed $56,833 and $32,500 on these contracts as of June 30, 2010 and 2009, respectively, which is reflected as *Contracts Receivable* on the accompanying Statement of Financial Position.

NOTE 10 OPERATING LEASE AGREEMENTS

Facilities:

On February 11, 2010, Wellspring entered into a three year lease commencing March 1, 2010 and terminating February 28, 2013 for approximately 1,537 square feet of program space in Gloucester, Massachusetts. The base annual rent is $12,286, excluding utilities. The lease requires monthly payments and is subject to an annual increase based on the CPIU. The lease can be terminated without fault or cause by either party after March 1, 2011, upon ninety days written notice.

As of June 30, 2010, the future minimum lease obligation arising from the above commitment is as follows:

Fiscal Year Ending	Total Lease Obligation
June 30, 2011	$12,286
June 30, 2012	12,286
June 30, 2013	8,197
Total Lease Obligation	$32,769

NOTE 11 FUND RAISING 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 fund raising 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 fund raising expenses in the Statement of Functional Expenses. The results of fund raising events are summarized below:

Event	Gross Proceeds	Direct Costs	Net Event Revenues 2010	Net Event Revenues 2009
Holiday Store	$ 14,160	$ 2,944	$ 11,216	$ 13,758
Women Honoring Women Luncheon	73,386	14,233	59,153	83,053
Gloucester Triathalon	8,555	-	8,555	-
Under One Roof	-	-	-	232,273
Dine Around	36,569	-	36,569	14,850
Other	4,619	626	3,993	(1,444)
Total	$137,289	$17,803	$119,486	$342,490

NOTE 12 IN-KIND GOODS AND SERVICES

For the years ended June 30, 2010 and 2009, the Organization recognized the following in-kind contributions in its financial statements:

Description	2010	2009
Telephone Equipment*	$ -	$ 30,000
Client Assistance:		
Volunteer Services	92,853	57,245
Donated Goods	3,689	37,429
Legal and Accounting Fees	-	1,275
Professional Services	9,000	6,613
Under One Roof - Direct Event Contributions	-	65,000
Under One Roof - Indirect Event Contributions	-	10,000
Total	$105,542	$207,562

* Capitalized

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.

NOTE 13 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. For the years ended June 30, 2010 and 2009, the Organization's contributions to the plan were $5,593 and $2,822, respectively.

NOTE 14 REAL ESTATE TAXES

During the years presented, the Organization paid 100% of its real estate taxes to the City of Gloucester. Wellspring has chosen this policy because, as part of the Gloucester community, it wants to contribute its share to the cost of city services. The amount of taxes paid for the years ended June 30, 2010 and 2009 was $21,023 and $22,359, respectively. All tax payments were current as of June 30, 2010 and 2009.

NOTE 15 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 balance may exceed federally insured limits. In FY 2009, in addition to the Federal Deposit Insurance Corporation (FDIC) deposit insurance, the Organization maintained a cash balance in a Massachusetts-chartered savings bank which participates in the Depositors Insurance Fund (DIF), which is a private, industry-sponsored insurance fund. All deposits above the FDIC limit held in this institution were insured in full by the Depositors Insurance Fund.

NOTE 15 *(Continued)*

During FY 2010, these funds were transferred to a brokerage firm where cash and mutual funds are not FDIC or DIF insured. The Organization's investments are managed by independent management firms whose performance is reviewed by the investment committee of the Board of Directors on a periodic basis.

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.

NOTE 16 TRANSACTIONS WITH AFFILIATED ENTITIES

During the period commencing with FY 2000 through December 31, 2004, Wellspring acted as the fiscal manager for the One Family Scholars program. On January 1, 2005, the One Family, Inc. organization assumed fiscal control and Wellspring began to charge One Family, Inc. for rent, applicable salaries and other expenses which totaled $31,018 and $65,366 for the years ended June 30, 2010 and 2009, respectively, and is included as *Contracted Services* revenue. The agreement terminated effective December 31, 2009. As of June 30, 2009, Wellspring was owed $6,238, by One Family, Inc., which is reported as *Due from Affiliates* in the accompanying Statements of Financial Position.

NOTE 17 SURPLUS REVENUE RETENTION

The Commonwealth of Massachusetts Division of Purchased Services' regulation, 808 CMR 1.19(3), *Not-for-Profit Surplus Revenue Retention*, allows social service providers to retain a surplus up to five percent of total revenues attributable to or generated by Commonwealth agreements for the provision of social services to clients of the Commonwealth and to use such surplus revenue for charitable purposes of the organization. The cumulative amount of surplus which can be retained may not in total exceed 20% of the provider's prior year's gross revenue from purchasing agencies.

The Division of Purchased Services is responsible for the determination of a provider's surplus as it pertains to the Surplus Revenue Retention Policy, and in addition, the Division shall be responsible for determining the amount of surplus that may be retained by Wellspring House, Inc. in any given year and may determine whether any excess surplus shall be used to reduce future prices or be recouped. The Organization, following the guidelines established by the Commonwealth, has calculated its Revenue Retention Surplus (deficit) as $(168,104) for the year ending June 30, 2010, with a cumulative surplus (deficit) of $(2,127,090) which includes fiscal years 1993 through 2010.

NOTE 18 SUBSEQUENT EVENTS

Management is required to consider events subsequent to the financial statement date for potential adjustment to or disclosure in the financial statements. Therefore, Management has evaluated subsequent events through October 5, 2010, the date which the financial statements were available for issue.