

**WELLSPRING HOUSE, INC.**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS**

**JUNE 30, 2015 AND 2014**

WELLSPRING HOUSE, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

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## **Bernard, Johnson & Company, P.C.**

Certified Public Accountants and Business Advisors

### 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, 2015, 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, 2015, 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 11, 2015, 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 2014 financial statements, and our report dated August 8, 2014, 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, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Barard Johnson & Company P.C.*

Topsfield, Massachusetts  
August 11, 2015

WELLSPRING HOUSE, INC.

STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2015 AND 2014

	ASSETS	2015	2014
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents		\$ 562,102	\$ 495,560
Program services receivable		78,201	40,221
Grants and pledges receivable		104,334	53,333
Cash and cash equivalents restricted for capital improvements		215,650	17,132
Cash and cash equivalents - board designated endowment		100,259	58,770
Investments - board designated endowment		938,103	853,389
Prepaid expenses		11,503	12,012
Total current assets		2,010,152	1,530,417
<b>PROPERTY AND EQUIPMENT - At cost</b>			
Less accumulated depreciation		1,667,570	1,621,622
		1,092,062	1,098,150
Net property and equipment		575,508	523,472
<b>OTHER ASSETS -</b>			
Grants and pledges receivable, net of current portion		-	33,334
TOTAL ASSETS		\$ 2,585,660	\$ 2,087,223
<b><u>LIABILITIES AND NET ASSETS</u></b>			
<b>CURRENT LIABILITIES:</b>			
Current portion of long-term debt		\$ 12,606	\$ 12,130
Accounts payable and accrued expenses		67,587	19,549
Accrued payroll and benefits		83,396	65,403
Total current liabilities		163,589	97,082
<b>LONG-TERM LIABILITIES -</b>			
Long-term debt less current maturities		203,214	215,690
Total liabilities		366,803	312,772
<b>NET ASSETS:</b>			
Unrestricted:			
Undesignated		831,125	729,130
Board designated - endowment		1,038,362	912,159
Total unrestricted net assets		1,869,487	1,641,289
Temporarily restricted		349,370	133,162
TOTAL NET ASSETS		2,218,857	1,774,451
TOTAL LIABILITIES AND NET ASSETS		\$ 2,585,660	\$ 2,087,223

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

WELLSPRING HOUSE, INC.

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015  
(with comparative totals for the year ended 2014)

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL 2015	TOTAL 2014
<b>OPERATING REVENUES AND OTHER SUPPORT:</b>				
Contributions and grants	\$ 589,944	\$ 344,019	\$ 933,963	\$ 864,493
Fundraising events, net	136,724	-	136,724	187,512
In-kind goods and services	146,502	-	146,502	113,425
Contracted services	627,639	-	627,639	462,984
Rental income	82,616	-	82,616	76,911
Net assets released from restrictions	324,129	(324,129)	-	-
Total operating revenues, gains and other support	1,907,554	19,890	1,927,444	1,705,325
<b>OPERATING EXPENSES:</b>				
Program services:				
Family shelter	559,638	-	559,638	438,845
Affordable housing	134,335	-	134,335	97,220
Community education	527,091	-	527,091	423,620
Total program services	1,221,064	-	1,221,064	959,685
Supporting services:				
General and administrative	262,456	-	262,456	218,426
Fundraising	254,978	-	254,978	257,580
Total supporting services	517,434	-	517,434	476,006
Depreciation and amortization expense	68,008	-	68,008	69,139
Total operating expenses	1,806,506	-	1,806,506	1,504,830
CHANGE IN NET ASSETS FROM OPERATIONS	101,048	19,890	120,938	200,495
<b>NON-OPERATING ACTIVITIES:</b>				
Realized and unrealized gain (loss) on investments	(4,972)	-	(4,972)	104,320
Interest and dividend income	23,955	-	23,955	20,426
Contributions and grants, non-operating	-	304,485	304,485	96,292
Net assets released from restrictions, non-operating	108,167	(108,167)	-	-
Total nonoperating activities	127,150	196,318	323,468	221,038
TOTAL CHANGE IN NET ASSETS	228,198	216,208	444,406	421,533
NET ASSETS AT BEGINNING OF YEAR	1,641,289	133,162	1,774,451	1,352,918
NET ASSETS AT END OF YEAR	\$ 1,869,487	\$ 349,370	\$ 2,218,857	\$ 1,774,451

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

WELLSPRING HOUSE, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2015  
*(with comparative totals for the year ended June 30 2014)*

	Family Shelter	Affordable Housing	Community Education	Total Program Services	General and Administrative	Fundraising	Total 2015	Total 2014
Personnel:								
Salaries	\$ 413,439	\$ 36,016	\$ 293,385	\$ 742,840	\$ 112,617	\$ 140,650	\$ 996,107	\$ 804,286
Payroll taxes	39,525	3,318	27,575	70,418	10,483	13,423	94,324	85,555
Fringe benefits	29,150	74	13,188	42,412	31,490	19,736	93,638	65,910
Total personnel expenses	482,114	39,408	334,148	855,670	154,590	173,809	1,184,069	955,751
In-kind expenses	3,416	3,359	77,067	83,842	14,000	30,535	128,377	113,425
Contractual services	12,443	1,313	10,271	24,027	46,826	3,893	74,746	23,451
Repairs and maintenance	3,235	35,810	13,184	52,229	3,013	3,013	58,255	54,610
Professional fees	1,961	1,398	10,241	13,600	20,065	465	34,130	30,694
Utilities	1,507	22,795	6,529	30,831	1,507	1,507	33,845	39,129
Insurance	6,633	6,633	6,633	19,899	4,757	3,317	27,973	30,160
Network expense	5,432	3,395	10,258	19,085	4,074	4,074	27,233	31,070
Scholarship/client assistance	9,037	-	14,010	23,047	-	-	23,047	18,081
Printing	-	-	-	-	142	18,522	18,664	17,734
Travel	8,017	-	10,346	18,363	7	-	18,370	12,146
Equipment	1,018	10,576	3,865	15,459	928	928	17,315	27,013
Real estate taxes	1,829	1,829	7,926	11,584	1,829	1,829	15,242	14,006
Program supplies	1,621	-	12,962	14,583	-	-	14,583	11,211
Telephone and internet	5,013	2,463	2,745	10,221	824	914	11,959	11,007
Interest expense	615	4,652	2,664	7,931	615	615	9,161	10,514
Postage	47	-	20	67	3,966	4,184	8,217	7,282
Office expense	3,202	-	868	4,070	3,106	203	7,379	4,760
Food	6,787	97	-	6,884	-	108	6,992	6,722
Subscriptions/program material	1,240	-	1,779	3,019	160	1,991	5,170	3,106
Household supplies	2,715	582	1,132	4,429	258	258	4,945	4,122
Advertising	1,013	25	380	1,418	380	1,340	3,138	1,056
Bank charges	-	-	-	-	827	1,788	2,615	5,275
Miscellaneous	53	-	13	66	283	1,650	1,999	1,299
Staff training	376	-	50	426	299	35	760	162
Participant expenses	314	-	-	314	-	-	314	1,905
Total expenses before depreciation	559,638	134,335	527,091	1,221,064	262,456	254,978	1,738,498	1,435,691
Depreciation and amortization	17,002	17,002	17,002	51,006	8,501	8,501	68,008	69,139
Total expenses	\$ 576,640	\$ 151,337	\$ 544,093	\$ 1,272,070	\$ 270,957	\$ 263,479	\$ 1,806,506	\$ 1,504,830

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

WELLSPRING HOUSE, INC.

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 444,406	\$ 421,533
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	68,008	69,139
Realized and unrealized (gain) loss on investments	4,972	(104,320)
Contributions and grants restricted for long-term purposes	(304,485)	(96,292)
In-kind goods and services, capitalized	(18,125)	-
In-kind securities contributions	(26,569)	(25,012)
Proceeds from sale of securities contributions	26,948	24,560
Cash provided by (used in) changes in:		
Program services receivable	(37,980)	19,245
Grants and pledges receivable	(17,667)	(51,417)
Prepaid expenses	509	(7,675)
Accounts payable and accrued expenses	48,038	(5,024)
Accrued payroll and benefits	17,993	(1,456)
Deferred revenue	-	(1,475)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>206,048</b>	<b>241,806</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to property and equipment	(101,919)	(101,525)
Change in cash and cash equivalents - board designated endowment	(41,489)	180,061
Increase in cash and cash equivalents restricted for capital improvements	(198,518)	(17,132)
Proceeds from sale of investments	17,424	17,758
Purchases of investments	(107,489)	(215,483)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(431,991)</b>	<b>(136,321)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES -</b>		
Proceeds from contributions and grants non-operating	304,485	96,292
Payments on long-term debt	(12,000)	(11,058)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>292,485</b>	<b>85,234</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>66,542</b>	<b>190,719</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>495,560</b>	<b>304,841</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 562,102</b>	<b>\$ 495,560</b>
<b><u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u></b>		
Cash paid during the years for - Interest	\$ 9,161	\$ 10,514
<b><u>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES</u></b>		
Various noncash donations:		
Securities	\$ 26,569	\$ 25,102
Goods and services capitalized	18,125	-

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



WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

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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, 2015 AND 2014  
(Continued)

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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 759 homeless families. In fiscal year 2015 the Organization sheltered 11 families (11 parents and 14 children). Families come into shelter because they lack sufficient income to afford market-rate rents. Wellspring works with each family to help them become more financially self-sufficient by assisting them with finding a job, enrolling in school, or participating in a job training program. Individual attention is given to the families by working with them to find permanent, affordable housing; ensuring that children are enrolled in school or daycare; and that basic needs such as food, clothing, and healthcare are provided. An important part of the Organization's work is to help each family expand their network in the community and ultimately, giving them more resilience in times of trouble.

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 and community groups provide important services such as making sure birthdays and special occasions are celebrated and that families receive help when they move into their new homes by supplying them with household items, dishes, towels and sheets.

Wellspring contracted with 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 257 homeless families (257 adults and 504 children) living in a motel in Danvers. 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. Twenty-five parents received individual counseling and resume assistance to support them in their job search efforts. The Organization also supported an on-site English Language Learning tutoring program (29 adults and 3 children participated) as well as a Homework Club (40 children participated). These programs were organized and run by volunteers with leadership from Wellspring staff.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014  
(Continued)

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

Statements of Functional Expenses (Continued)

To help families avoid the trauma of homelessness, Wellspring provided homeless prevention and advocacy services. During fiscal year 2015, the Organization's Homeless Prevention Fund received 176 calls from Cape Ann residents seeking counseling and financial assistance. Wellspring provided one-time grants to 12 families for rent arrearages or utility payments, preventing these families from becoming homeless. Wellspring continued its partnership with Small Can Be Big and other community resources to help meet the needs of the financially troubled callers. 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 (a group of service providers that meets to share information and assist struggling families). Wellspring's 18<sup>th</sup> annual Holiday Store ensured that 853 children from 394 families had gifts to celebrate the holidays. Donors provided Back-to-School backpacks and supplies to 93 children in the shelter and motel.

In fiscal year 2015, the Organization worked with 7 families (8 adults and 9 children) in the Family Stabilization program. Wellspring's stabilization efforts assist families who have recently moved out of shelter into permanent housing by ensuring that the children are enrolled in school, there are medical care options, their job search is supported, and their basic needs are met. Wellspring will work with these families for 12 months after they have moved into permanent housing.

**Affordable Housing:**

Since 1987 Wellspring has owned and operated a lodging house at 11 Chestnut Street in 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.

**Wellspring 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 programs provide a continuum of opportunities designed to meet adults who are at different places in the educational journey.

The Organization began beta testing a new program, the Wellspring Education Resource Center (WERC) this year. WERC is designed to help adults recognize their interests and identify living wage jobs that utilize their talents. Services provided include help with identifying the right school or job training program; planning a course of study; and assistance with job or admissions applications. There is a volunteer mentoring component to this program. Twenty-eight students have participated in the beta test and WERC will officially launch on July 1, 2015.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014  
(Continued)

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

Statements of Functional Expenses (Continued)

The Organization's English Language Learning (ELL) program is for adults who are learning English and helps them gain verbal proficiency and literacy competencies. This program utilizes volunteer tutors who meet one-on-one with students at the Sawyer Free Library in Gloucester, a community partner. Sixty-eight students were served last year. Wellspring also supports an English Language Learning tutoring program led and staffed by volunteers onsite at the motel (refer to the Family Shelter section). This year, Wellspring also partnered with the Gloucester Housing Authority to offer an on-site ELL program at their community center on Veteran's Way. Five families participated.

The Adult Learning Initiative (ALI) is an adult education program that helps students pass the High School Equivalency Test (HiSET), prepare for college, or obtain a job. Students study math, English, computer skills, and career development. Students who complete the computer skill course are eligible to receive 3 college credits from North Shore Community College. Last year 41 students graduated from ALI. Scheduled to launch in the Fall of 2015 is a new program called ALI 2. This program was developed as a follow-up to ALI. The goal of ALI 2 is for students to become proficient in math and/or English and be able to test out of remedial college courses, which often are not credit bearing and may use a student's limited financial aid resources.

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-four students participated in fiscal year 2015. MediClerk celebrated its 12<sup>th</sup> anniversary in fiscal year 2015, and to date has trained 383 students. The program has an impressive 86% job placement rate. Wellspring began the formal process of seeking accreditation for this program in fiscal year 2015.

This fiscal year Wellspring's Robert Clark Rogers Educational Opportunity Fund ("Bob Rogers Fund") made 7 awards totaling \$7,500 to graduates from Wellspring's education programs who have gone on to higher education opportunities. Since the first awards were made in 2006, the Bob Rogers Fund has provided 63 awards totaling \$62,895. The Organization has also sponsored three students in the One Family Scholars program, with one of them graduating from college with an Associates Degree in May 2015.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014  
(Continued)

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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 11, 2015, the date the financial statements were available to be issued.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014  
(Continued)

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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, 2014, 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, 2015 AND 2014  
(Continued)

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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, 2015 and 2014, 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, 2015, the Organization has not recognized any reduction in the carrying value of its property.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014  
(Continued)

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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 \$435 for the year ended June 30, 2014. There was no amortization expense for the year ended June 30, 2015.

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, 2015, the Organization determined that there were no material uncertain tax positions to report.

For the years ended June 30, 2015 and 2014, 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 2014, 2013 and 2012 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, 2015 AND 2014  
(Continued)

2. BOARD DESIGNATED ENDOWMENT INVESTMENTS:

As of June 30, 2015 and 2014 investments cost and unrealized gains and losses consisted of the following:

	June 30, 2015		June 30, 2014	
	Cost	Market Value	Cost	Market Value
Cash equivalents	\$ 100,259	\$ 100,259	\$ 58,770	\$ 58,770
Exchange traded funds	783,861	938,103	695,911	853,389
	<u>\$ 884,120</u>	<u>\$ 1,038,362</u>	<u>\$ 754,681</u>	<u>\$ 912,159</u>

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

	June 30, 2015			
	Level I	Level II	Level III	Total
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>

  

	June 30, 2014			
	Level I	Level II	Level III	Total
Cash equivalents	\$ 58,770	\$ -	\$ -	\$ 58,770
Exchange traded funds	853,389	-	-	853,389
	<u>\$ 912,159</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 912,159</u>

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014  
(Continued)

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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, 2015 and 2014 is comprised of the following:

	2015	2014
Interest and dividends	\$ 23,955	\$ 20,426
Realized gain (loss) on investments	(136)	783
Unrealized gain (loss) on investments	(4,836)	103,537
	<u>\$ 18,983</u>	<u>\$ 124,746</u>

3. PROPERTY AND EQUIPMENT:

At June 30, 2015 and 2014, property and equipment was comprised as follows:

	2015	2014
Land	\$ 83,957	\$ 83,957
Land improvements	4,600	-
Buildings	685,779	685,779
Building Improvements	690,919	688,150
Furniture and equipment	109,954	163,736
Construction in progress	92,361	-
	<u>1,575,209</u>	<u>1,621,622</u>
Less accumulated depreciation	<u>1,092,062</u>	<u>1,098,150</u>
Property and equipment - net	<u>\$ 483,147</u>	<u>\$ 523,472</u>

Depreciation of property and equipment was \$68,008 and \$68,704 for the years ended June 30, 2015 and 2014, respectively.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014  
(Continued)

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4. LONG-TERM DEBT:

At June 30, 2015 and 2014 long-term debt was comprised as follows:

	<u>2015</u>	<u>2014</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	\$ 204,679	\$ 215,666
Assessment for sewer betterment - City of Gloucester, annual payments of \$1,013 at an annual interest rate of 1.56%, matures May, 2026	<u>11,141</u>	<u>12,154</u>
	215,820	227,820
Less - current portion of long-term debt	<u>(12,606)</u>	<u>(12,130)</u>
	<u>\$ 203,214</u>	<u>\$ 215,690</u>

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

June 2016	\$ 12,606
2017	13,102
2018	13,620
2019	169,403
2020	1,013
Thereafter	6,076

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, 2015 and 2014). There were no loans outstanding at June 30, 2015 and 2014.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014  
(Continued)

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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, 2015 and 2014, the aggregate balance of the board designated Endowment Fund was \$1,038,362 (of which \$244,173 represents the Rogers Education Opportunity Fund) and \$912,159 (of which \$239,692 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, 2015 and 2014 were as follows:

	2015	2014
Board designated Endowment Fund, beginning of year	\$ 912,159	\$ 789,723
Investment return:		
Investment income	22,916	20,948
Net appreciation (depreciation)	(4,972)	103,537
Contributions and designations	112,200	8,000
Transfers from board designated Endowment Fund	(905)	(2,100)
Amounts appropriated for expenditure	(3,000)	(7,805)
Administrative expenses	(36)	(144)
	<u>\$ 1,038,362</u>	<u>\$ 912,159</u>
Board designated Endowment Fund, end of year		

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014  
(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, 2015 and 2014:

	2015	2014
Capital improvements	\$ 215,650	\$ 17,132
Restricted for future use	103,334	81,667
Education programs	21,076	32,980
Family shelter	5,000	-
Homelessness Prevention Fund	4,060	-
Robert Clark Rogers Education Opportunity fund	250	-
First jobs fund	-	1,383
Total	<u>\$ 349,370</u>	<u>\$ 133,162</u>

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

	2015	2014
Education programs	\$ 252,413	\$ 103,000
Board endowment	62,200	-
Time restrictions elapsed	48,333	20,250
Capital improvements	45,967	117,509
Family shelter	22,000	-
First jobs fund	1,383	3,109
Housing stabilization	-	27,100
Technology	-	11,960
Strategic plan	-	3,746
Total	<u>\$ 432,296</u>	<u>\$ 286,674</u>

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014  
(Continued)

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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 \$261,214 and \$260,975 for the years ended June 30, 2015 and 2014, respectively.

During the years ended June 30, 2015 and 2014, 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 \$187,925 and \$52,000 for the years ended June 30, 2015 and 2014, respectively.

Total revenues arising from the above contracts amounted to \$449,139 and \$312,975, representing 20% and 16% of total support and revenues for the years ended June 30, 2015 and 2014, 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	
			2015	2014
Women Honoring Women Luncheon	\$ 140,877	\$ 18,841	\$ 122,036	\$ 115,468
Concert	-	-	-	61,187
Holiday Store	34,617	19,929	14,688	10,857
Total	\$ 175,494	\$ 38,770	\$ 136,724	\$ 187,512

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014  
(Continued)

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8. IN-KIND GOODS AND SERVICES:

For the years ended June 30, 2015 and 2014, the Organization recognized the following in-kind contributions in its financial statements:

	2015	2014
Client Assistance:		
Volunteer services	\$ 84,516	\$ 89,038
Special event costs	26,009	24,387
Capitalized costs	18,125	-
Books and program supplies	17,852	-
	<hr/>	<hr/>
Total	\$ 146,502	\$ 113,425
	<hr/>	<hr/>

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 \$2,694 for the years ended June 30, 2015 and 2014, 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, 2015 AND 2014  
(Continued)

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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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Beginning accumulated surplus (deficit) retention fund pool	\$ (2,873,031)	\$ (2,666,423)
Current year decrease in accumulated surplus revenue retention fund pool	<u>(189,151)</u>	<u>(206,608)</u>
Ending accumulated surplus (deficit) retention fund pool	<u>\$ (3,062,182)</u>	<u>\$ (2,873,031)</u>

12. RECLASSIFICATION:

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 presentation.





## Bernard, Johnson & Company, P.C.

Certified Public Accountants and Business Advisors

**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, 2015, 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 11, 2015.

### ***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.

*Barbara Johnson & Company P.C.*

Topsfield, Massachusetts  
August 11, 2015